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The Influence of Bank-Based and Capital Market-Based Impact Investments on SME Financing in Ghana: Governance, Strategy Change and Impacts

Richmond O. Lamptey

A thesis submitted to The Open University in fulfilment of the requirements for the degree of

Doctor of Philosophy

The Open University

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The Influences of Bank-Based and Capital Market-
Based Impact Investments on SME Financing in
Ghana: Governance, Strategy Change and Impacts

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Abstract

Impact investing, defined as direct investments into funds, small and medium-sized enterprises (SMEs) and viable non-profit social enterprises with intentionality to simultaneously realise social impact and financial returns is increasingly attracting the attention of academics and industry practitioners. A contentious claim is that impact investment, as transformational in its approach to entrepreneurial financing, is a panacea to SME financing constraints and solutions to intractable societal problems, is contestable considering the myriad of developmental challenges in Bottom-of-the-Pyramid (BoP) communities in the developing world. Based on an empirical investigation of the influences of finance first and impact first investments into bank-based and capital market-based funds on SMEs in Ghana, this thesis interrogates this claim. Specifically, the thesis argues that though impact investing represents an innovation in private sector approaches to development, the extent to which it can achieve the much-hyped societal transformation in BoP communities cannot be substantiated.

This research contributes to the above debate by critically investigating the influences of impact investment funds on investee SMEs through an integrated theoretical framework. The framework draws on the literature from different disciplines including impact investing, social entrepreneurship, strategic management, financial intermediation, economics, SME management and concepts of governance, strategy change and impacts, which was then applied within the research setting of Ghana.

Empirically, the thesis develops two case studies of bank-based and capital market-based funds into SMEs, respectively. Qualitative research was employed with data collection comprising in-depth interviews, rapid participant observation complemented by documentary evidence. Findings reveal that the distinctiveness of finance and impact first investors reflect their choices of bank and capital market-based intermediary used resulting in pluralistic, entrepreneurial financing options for categories of SMEs targeted for social impact and financial returns. These findings have implication for fund managers, SME owner-managers and policymakers due to private sector-driven developmental model by impact investors.

Dedication

This thesis is dedicated to:

My parents, brother, sister, mother-in-law, my lovely wife (Jewel Lamptey)

and

My beloved children

Nii Lante, Naa Lamley, Lamiokor and Lantei

For their continuous support, love, encouragement, and prayers

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List of Abbreviations

AfDB	African Development Bank
ADB	Agricultural Development Bank
BBF	Bank-Based Fund
BOG	Bank of Ghana
BoP	Bottom of the Pyramid
CMB	Capital Market Based
CHPS	Community Health and Planning Services
DFI	Development Finance Institution
DMB	Deposit Money Bank
ERP	Economic Recovery Program
FDI	Foreign Direct Investment
FINSAC	Financial Sector Adjustment Credit
FINSAP	Financial Sector Adjustment Program
GCII	GIMPA Centre for Impact Investing
GIIN	Global Impact Investing Network
GEPA	Ghana Export Promotion Authority
GFZA	Ghana Free Zone Authority
GIPC	Ghana Investment Promotion Centre
GSE	Ghana Stock Exchange
GSS	Ghana Statistical Service
IFC	International Finance Corporation
IMF	International Monetary Fund
MASLOC	Microfinance and Small Loans Centre
MFI	Micro Finance Institution
MNC	Multi- National Corporation
MOBD	Ministry of Business Development
MOFEP	Ministry of Finance and Economic Planning

MOTI	Ministry of Trade and Industry
MPR	Monetary Policy Rate
MSME	Micro, Small and Medium size Enterprises
NBFI	Non-Bank Financial Institution
NDC	National Democratic Congress
NIB	National Investment Bank
NIC	National Insurance Commission
NPP	New Patriotic Party
NPRA	National Pensions Regulatory Authority
RCB	Rural Commercial Bank
SDF	Skills Development Fund
SEC	Securities and Exchange Commission
SHEP	Self-Help Electrification Project
SIF	Social Investment Fund
SME	Small and Medium size Enterprises
SSNIT	Social Security and National Insurance Trust
TIAA-CREF	Teachers Insurance and Annuity Association of America (TIAA) and College Retirement Equities Fund (CREF)
TPFA	Temporary Pension Fund Accounts
USAID	United States Agency for International Development
UNCTAD	United Nations Conference on Trade and Development
VCTF	Venture Capital Trust Fund
WDI	World Development Indicator

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CHAPTER 1

Introduction

1.1 Introduction

Impact investing defined in this thesis as direct and indirect investments into funds and Small and Medium-size Enterprises (SMEs) for social impact and financial returns is an emerging institutional field of study and practice. Impact investors channel capital through bank and capital market-based funds as managed and equity/debt fund respectively which are then invested into SMEs. Three pivotal factors motivated me to pursue this PhD in the area of impact investing. Firstly, during my time as a professional commercial banker in Ghana, I saw many entrepreneurs struggling and becoming increasingly frustrated as they attempted to access bank loans for investment purposes. Furthermore, these bank-based financial products did not address the long-term financing needs of most SMEs. Commercial banks tended to perceive smaller enterprises as high risk, lacking proper governance structures and prone to failure. My personal experience of these constraints and limitations prompted critical thinking on potential alternatives to traditional forms of SME financing in a developing country context. Secondly, I completed a course on alternative types of lending to SMEs in developing countries, including emerging forms of microfinance. This prompted me to undertake my Executive MBA dissertation study on risk management and microfinance lending to SMEs, with its dual aim of alleviating financing challenges and encouraging business-focused solutions to societal problems (Lampitey, 2015).

The findings from my MBA dissertation shows how loans to owner-managers of micro and small businesses can be transformative in terms of operating their businesses in ways that contribute to address societal problems. Examples of these societal problems include high youth unemployment, post-harvest losses, inadequate housing, high drop-out of children at school attending age, inadequate health infrastructure and poor sanitation with associated health-related problems. It also emerged that with appropriate risk management from microfinance institutions, SME ventures could serve as agents of social impact and financial returns providing services to underserved communities. Thirdly, I developed a detailed understanding of the emerging impact investing institutional field at practitioner workshops and

desk research conducted as a graduate research assistant at the GIMPA Centre for Impact Investing (GCII) in Ghana. A case study research on Grofin Ghana Ltd (an impact investment fund) revealed how such funds are supporting SMEs to realise financial returns and social impact in terms of solutions to societal problems (Amewu and Lamptey, 2015). Presumably, the promoters of impact investing are seeking to solve through direct and indirect investment into high growth and established SMEs the same societal problems.

For example, access to potable water, poor sanitation, and inadequate access to education, illegal mining, and lack of access to healthcare represent intractable societal problems in Ghana requiring solutions. These three motivations, therefore, encouraged me to undertake a PhD study on impact investment as an alternative SME financing to traditional enterprise financing and as a solution to societal problems. Specific interest is to explore and explain the similarities and differences of impact investment from microfinance, bank loans, angel investments, venture capital and private equity capital. I am seeking to uncover the distinctiveness to explain why and how impact investments represent an alternative SME funding within the research setting of Ghana, which further adds to the urge to undertake this PhD research project. In Chapter 1, a research problem is articulated as well as a viable research question (s) and objectives based on gaps in the literature. An overview of the research setting of Ghana is presented, followed by a summary of the research approach for this PhD study. Contribution of the study is presented, followed by the structure of the rest of the research.

1.2 Research Problem

In recent times, several high-profile promoters of impact investing, including the World Economic Forum, Rockefeller Foundation, Social Impact Investing Taskforce of the G8 have argued that it could play an essential role in addressing societal problems (WEF, 2013; Glänzel and Scheuerle, 2016). This has been echoed by other multilateral institutions, such as the World Bank and UNPRI (Glänzel and Scheuerle, 2016; Jones and Turner, 2014). Societal problems of the kind outlined above can be termed 'wicked problems' (Rittel and Webber 1973), meaning that they appear to present intricate, intractable, and often insurmountable challenges to the world's policy-makers, NGOs, and multilateral organisations (Clarkin and Cangioni, 2016; Head and Alford, 2015; Praszkie and Nowak, 2011). Impact

investment objectives are centred on the assumption of economic and social development (Jones and Turner, 2014; Rubin, 2009). Investments that provide financial returns alongside social impact in underserved and geographically disadvantaged communities represent economic and social development. For example, job creation, improved income for women, products and services that alleviate poverty constitute developmental objectives and assumptions behind impact investment (Jones and Turner, 2014; Rubin, 2009). Thus, the principal claim is that impact investments into both for-profit enterprises (e.g. SMEs) and commercially viable non-profit social enterprises can potentially eradicate some of these intractable societal problems (Ngoasong and Kimbu, 2016).

While estimated impact investment flows to Sub-Saharan Africa are around \$17 billion annually (GIIN 2015), it remains uncertain whether this level of funding is sufficient given the scale of the societal problems that impact investors are seeking to address and the underlying finance gap, which has been estimated at \$70 - \$90 billion for Sub-Saharan Africa (IFC,2013). Comparatively, the finance gap for formal SMEs in other regions is estimated as \$260-\$320 billion-Middle East and North Africa (MENA); \$210-\$250 billion-Latin America and Caribbean (LAC); and \$10-\$20 billion- South Asia (IFC,2013). While a sub-regional breakdown of the SME finance gap in SSA is not readily available, the foregone statistics from other regions show the enormity of challenges that impact investors are seeking to solve. A more recent IFC (2017) estimates of micro, small and medium-sized enterprises (MSME) finance gap is as follows: SSA- \$331 billion; South Asia-\$337 billion and MENA-\$195 billion. The issue is further compounded when one observes that formal SMEs that represent channels and agents of the solution to societal problems such as job creation in African communities are financially constrained (Kuntchev et al., 2014; IFC, 2017).

World Development indicators show that in SSA, about 45% proportion of the population live in extreme poverty (less than \$1.90 a day) as of 2012 (WDI, 2016). Research shows that more than fifty per cent of this population, widely classified as bottom-of-the-pyramid (BoP) communities, live in developing countries in Africa (Oleksiak et al., 2015). I am therefore conducting this empirical study on investor-fund manager and fund manager-SME investee governance in simultaneous pursuit of social impact and financial returns to explain how these societal problems can be alleviated in the context of Africa. Governance of high growth and established SMEs conceptualised as for-profit social enterprises are significant to ensure that they

realise the expected financial returns and social impact. Strategy change is critical to determine whether these SMEs integrating social impact into their operational and strategic objectives are delivering on the expectations of impact investors or it is a mere façade. Strategy which concerns positioning, choice and differentiation in creating unique shared value proposition (Porter and Kramer, 2011) plays a crucial role in realising the social impact and financial returns. High growth and established SMEs have changed their strategies to incorporate social impact (development) to attract impact investment capital. Interaction of governance and strategy change for SMEs would enable the realisation of the intended objectives.

Based on a critical review of existing impact investing and related academic literature it is clear that the governance of impact investments matter for the effectiveness of funds and SMEs in realising social impact and financial returns (Höchstädter and Scheck, 2015; Ormiston et al., 2015; Geobey and Harji, 2014; Jones and Turner, 2014; Rajan et al., 2014; Evans, 2013). Governance can be described as structures that assure financiers of obtaining return on their investment and other ancillary goals. Governance which concerns ownership, control and board representation is also vital for impact investors to achieve the anticipated social impact and financial returns (Kaplan and Stromberg, 2009; Connelly et al., 2010; Gompers et al., 2016). From this notion, effective governance is crucial based on three significant reasons in promoting the emerging impact investment field. First, governance is vital for "effective ways to generate compelling returns and tangible impact" (Geobey and Harji, 2014, p. 276). Next, governance will prevent "wave of default" experienced by mutual funds and for-profit banks that demonstrated viability initially in a similar field century ago (Geobey and Harji, 2014, p. 276).

Finally, effective governance will send the correct signal to attract mainstream financiers to the impact investing sector. There is however a dearth of literature on governance within the existing impact investing literature, except few passing comments about its role in investment and portfolio strategies that incorporates environmental, social and governance factors (Höchstädter and Scheck, 2015; Ormiston et al., 2015; Geobey and Harji, 2014). Such sparsity of governance literature reflects a research gap in line with the call from Geobey and Harji (2014, p. 275) for the "need to develop and strengthen governance mechanisms" considering the growth of impact investment flows from investors to investees. Moreover, governance arrangements affect the strategies of impact funds and the SMEs they finance (Ebrahim et al., 2014).

Another issue which represents a major school of thought within the impact investing literature is the intentionality principle. This school of thought argues that impact investment spans across geographies, regions, and assets. More importantly, impact investments should be guided by the intentionality principle (Höchstädter and Scheck, 2015; Ormiston et al., 2015; Rubin, 2009) of social impact alongside financial returns. According to Wood et al., (2013), intentionality principle or deliberate pursuit of social impact and financial returns qualify an investment as impact investment. It is expected to occur at the institutional investor level (Wood et al., 2013), fund manager level and investee SME level (Rajan et al., 2014).

Moreover, the intentionality principle implies that social impact should not be incidental to commercial or financial returns (Höchstädter and Scheck, 2015; Addis et al., 2013). The study draws upon the social entrepreneurship literature to show how deliberate pursuit of social impact and financial returns can be conceptualised, reflecting the intentionality principle expected by impact investors. Social entrepreneurship theory argues that deliberate and simultaneous pursuit can be judged by first uncovering the commercial, social, and social transformational goals of an investor or enterprise and examining the extent to which these are intrinsic in to the mission, values and aspirations/goals of the enterprise/fund (Luke and Chu, 2013; Seelos and Mair, 2005). The study, therefore, draws upon social entrepreneurship theory to address the second objective.

1.3 Research Questions and Objectives

This study addresses two main questions linked to the research problem in section 1.2 and research objectives in section 1.4 as follows:

- How do bank-based and capital market-based impact funds govern SMEs that simultaneously pursue a dual goal of social impact and financial returns?
- How do the strategies of bank-based and capital market-based fund managers and the SMEs they finance change when they are no longer seen as vehicles for private wealth creation but as agents for creating social impact in bottom-of-the-pyramid communities?

Based on the above research problem and research questions, an effort is made to undertake this study with three objectives:

1. To critically investigate the distinctiveness of bank-based versus capital market-based impact funds in terms of governance, strategy change and impacts on investee SMEs.
2. To examine how the characteristics of impact investments as finance first and impact first enable managers of SMEs to integrate the dual mission of social impact and financial returns in their business strategies.
3. To discuss the SME financing void that impact investing fills as alternative within the enterprise financing architecture of a BoP context/economy.

1.4 Research setting of Ghana

Ghana provides an interesting setting for researching the influences of impact investing on SMEs for five reasons. First, impact investment flows to Ghana over the past decade, estimated at \$1.6 billion (GIIN, 2015) continues to grow. Second, impact investing has transformed the enterprise financing landscape through different financial instruments and funding institutions reducing the SME financing constraints. Third, access to impact investment capital provide alternative sources of funds for bank-based, capital market-based and other non-bank financial intermediaries to manage their liquidity and capital adequacy in line with regulatory requirements. Fourth, high growth, missing middle and established SMEs represent agents of social transformation through alleviation of the intractable societal problems in the country. Examples of these societal problems include unemployment, poverty, illegal mining, inadequate access to water, improvement in education and health (Aryeetey and Baah-Boateng, 2016). Thus, impact investment represents a game-changer in terms of private-sector led approach to development compared to the previous era of public-sector-led initiatives.

Fifth, Ghana represents attractive investment destination in Africa with GDP per capita of \$2,046.11 (World Bank, 2018) and foreign direct investment (FDI) inflow of \$3.3 billion by 2017 but declined to \$2.9 billion in 2018 (UNCTAD, 2018). The financial architecture of Ghana is bank-dominated alongside market-based segment (Tadesse, 2002). The enterprise architecture consists of 0.4% large enterprises, with an estimated number of 2,539 (GSS IBES, 2016). Medium-size enterprises constitute 1.5% of total business establishment in Ghana (GSS IBES, 2016). An estimated 90% of enterprises in Ghana represent micro and small businesses (Abor and Biekpe, 2010). Established formal regulatory and promoting

institutions shape and influence the financial and enterprise architectures for enterprises and funds to deliver social and financial goals. An elaborate review of the research setting of Ghana is set out in Chapter 3.

1.5 Research Approach

This thesis aims to develop a new theory to critically investigate how impact investment funds through governance, strategy change, and impacts influenced high growth and established SMEs in BoP communities. The study builds on four existing theories namely agency theory of governance, resource-based view of strategy change, social entrepreneurship theory related to simultaneous pursuit of social and financial returns and institutional theory to develop and critically explore an integrated theoretical framework for understanding the influence of impact investing on SME financing in BoP communities. Each of these theories are relevant for understanding aspects of impact investing; however, in this thesis, each makes an important contribution to the generation of an effective framework for understanding this recently emerged phenomenon of impact investing. To realise this objective, the study reviews different sets of literature and develops an integrated theoretical framework based on four themes emerging from literature. These themes comprise investors, funds, SMEs, and impacts.

Two categories of impact investors emerged from the impact investing literature review representing finance first and impact first (called Principal 1). These impact investors channel investment capital through bank-based, and capital market-based funds (agent 1) uncovered from the impact investing and related sets of literature for social impact and financial returns. Bank-based and capital market-based funds (now principal 2) subsequently identify and target high growth, missing middle and established SMEs (agent 2) as agents to realise outcomes of social impact and financial returns. High growth, missing middle and established SMEs conceptualised as for-profit social enterprises emerged from the social entrepreneurship literature. To investigate how the investor-fund manager and fund manager-SME investee realise the social impact and financial returns and thereby develop an empirically grounded theoretical framework, this thesis integrates concepts from the theoretical and empirical literature on governance (Gompers et al., 2016; Kaplan and Stromberg, 2009), strategy change (Battilana et al 2012;

Vicente-Lorente and Zuniga-Vicente, 2006), social entrepreneurship (Zahra et al., 2009; Peredo and McLean, 2006; Seelos and Mair, 2005;) and institutional theory (Bruton et al., 2010; Scot, 2001; Boot, 2000). The framework was applied to answer the two main research questions stated earlier in section 1.3 using an interview schedule, rapid participant observation during the fieldwork and secondary sources for data collection.

The study uses a qualitative case study research design of **two** cases with an embedded unit of analysis and abductive research strategy to investigate the influences of impact investment funds on SMEs in BoP communities. Where influences were viewed from governance, strategy change and impacts. An explanatory case study design is appropriate for addressing 'how?' and 'why?' research questions focusing on the socially constructed nature of reality (Bryman and Bell, 2015; Saunders et al., 2009 Yin 2014). A sampling of fund managers, investors, investee SMEs is based on non-probability techniques of purposive, theoretical, and snowballing sampling adopted during the pilot study in Ghana before the PhD fieldwork which also guaranteed access to research sites. Primary and secondary data collection methods were employed during four months of PhD fieldwork from January to April 2018. Data collection methods utilised involved face-face interviews, rapid participant observations and secondary source documents such as leaflets, reports, annual financial statements of bank-based funds, impact reports of capital market-based fund managers and website information.

Forty-four research participants were interviewed lasting 70-90 minutes in their offices comprising nine bank-based fund managers, eight capital market-based fund managers, fifteen SMEs owner managers and five officials of regulatory and policymaking institutions. In some bank-based and capital market-based funds, interviews were conducted with officials. These fieldwork interviews were complemented by telephone interviews with four research participants from global Development Finance Institutions (DFI) with a substantial capital commitment to bank-based and capital market-based funds. In addition, informal discussions were held with three employees of SMEs at their farm location, which were recorded as field notes and used for additional sense making (Hustinx and Waele, 2015). The main PhD fieldwork face-face in-depth interview with research participants was based on semi-structured interview guide as data collection instrument earlier pre-tested in a pilot study involving three bank-based officials, two capital market-based and four beneficiaries of capital market-based funds as participants. Data analysis

were based on the theoretical framework developed which informed a coding scheme and applied during the data collection and guided by content analysis, narrative analysis, thematic analysis (Braun and Clarke, 2006) and Miles, Huberman and Saldana (2014) analytical approach. Finally, a new empirically derived theory is developed (figure 7.1 of chapter 7) from the application of the integrated theoretical framework (figure 2.1 of Chapter 2) to the empirical research setting of Ghana (chapters 5 and 6).

1.6 Contribution to Knowledge

The study makes two significant theoretical contributions. First, to understand and explain how bank-based fund managers influence high growth, missing middle and established SMEs in BoP communities, a focus on governance, strategy change, and impacts are essential. A review of the impact investing literature (Höchstädter and Scheck, 2015; Ormiston et al., 2015; Geobey and Harji, 2014) suggest that these influences constitute a research knowledge gap that must be understood and studied at the impact investor- fund manager level initially because it manifests and impacts at the fund manager-investee relationships and outcomes at the SME and wider societal levels. This thesis addresses this knowledge gap by developing and elaborating a theoretical framework that theorise impact investment governance and strategy change from finance first and impact first investors within the global context and strategy change of BBF and CMB fund managers within the institutional context in supporting SMEs achieve impacts in BoP communities.

The second theoretical contribution relates to the influences of BB and CMB fund managers on high growth and established SMEs in BoP communities. CMB fund influences on high growth, missing middle and established SMEs that simultaneously realise the social impact and financial returns can be investigated through a critical examination of governance, strategy change and impacts. Theoretically, previous literature has considered impact investments, social enterprise financing, SMEs, governance of enterprises and strategies of funds in silos (Höchstädter and Scheck, 2015; Mair et al., 2015; Ormiston et al., 2015; Ebrahim et al., 2014). Integrating these concepts and themes in the developed theoretical framework and applying the same in an empirical setting makes a significant contribution to theory building and theory elaboration.

Beyond the theoretical contribution, governance evidence of ownership, control and board representation fills the gap in the impact investing literature in response to the call from Geobey and Harji (2014, p.275) regarding the governance of impact investment funds. Thus, advances the research gap on future research on how investee organisations are benefiting from impact investment growth by Ormiston et al. (2015, p.375). Social entrepreneurship literature is augmented through SME owner-managers conceptualised as social entrepreneurs in theoretical framework applied and thus extends the theory on social entrepreneurs (Kimbu and Ngoasong, 2016; Ruebottom, 2013; Zahra et al., 2009).

The study also contributes to practice in developing countries in Africa with a similar context and Ghana in particular. Applying the theoretical framework within the research setting of Ghana comprising three geographical regions, macro-environment, financial and enterprise architectures, and institutional context which interact with the global context from which impact investment funds flow indicate empirical contribution. Similar context in Africa include Kenya and South Africa while other developing countries in South-East Asia like India and Bangladesh representing key recipients of impact investment. Moreover, adopting a qualitative case study research design to collect data from 5 bank-based fund managers, 5 CMB fund managers, 15 investee SMEs and four formal institutions evidence empirical contribution within the research setting. Previous studies have examined MFIs as a bank-based intermediary of impact investing (Praseeda, 2018). Ghana's setting for undertaking this research from three Regions, namely Greater Accra, Ashanti and Eastern evidence geographical allocation of impact investment funds by these fund managers. Emerging differences, similarities, and conditions of effectiveness of bank base funds and capital market-based funds as intermediaries of impact investment funds would be beneficial to promoters of impact investing and impact investors. Impact investment funds as an alternative to traditional bank financing, MFI, private equity, venture capital, angel investment, crowdfunding for high growth, missing middle and established SMEs contributes to both theory and practice.

The study also provides important policy implications around legislative framework on impact investments aimed at attracting institutional investors to the impact investment sector in Ghana for the benefit of SMEs. The empirical evidence a successful fund management models (bank-based and capital market funds) based on governance and strategies and SME investees provide important lessons

for how the establishment of new impact investment catalyse social impact and financial returns. Policy and regulation concerning how capital market institutions can set up and obtain fund manager license can potentially benefit from this study, especially criteria, conceptualisation, and definition of an impact investment fund. Another area is amendment of taxes for high growth and established SMEs that deliberately integrate social impact strategy of job creation, poverty alleviation, and operate to realise affordable housing, improved education, and health (Addis et al., 2013) objectives.

1.7 Limitations of the study

A qualitative case study research design was applied to investigate the influences of impact investment funds on investee SMEs in BoP communities. Qualitative studies have been criticised for the lack of generalisability of findings due to the sample size. While the study is not aimed at generalising the findings, a quantitative analytical approach would have confirmed the cause-effect relationship among the actors. This, therefore, represents a limitation which future studies could examine.

1.8 Structure and Outline of the thesis

This PhD thesis is divided into seven chapters. This introductory chapter is continued with Chapter 2, a critical literature review that is designed to determine the current state of knowledge within the impact investing discipline, uncovering research gaps, and development of a theoretical framework to conduct this research. The study draws on five sets of literature to develop a theoretical framework for empirical application within the research context of Ghana. Chapter 3 explains the research setting of Ghana to understand the significance of conducting the study in that context. The study reviewed the different environmental factors contributing to societal problems that impact investors are seeking to resolve. Then focus on, financial and enterprise architectures, institutional context and positions impact investment within the financial and enterprise architectures. Next, Chapter 4 sets out the methods for undertaking this research study, highlighting philosophical assumptions, research design, sampling, access, data collection instruments, method of data analysis and ethics. Chapters 5 and 6 present empirical analysis of bank-based funds and investee SMEs and then capital market-based funds and investee SMEs, respectively. Finally. Chapter 7 concludes the

thesis. First, the chapter details discussion of key findings about literature and then contributions to theory, empirical, practice and policy. Finally, limitations and future research direction.

CHAPTER 2

Governance, Strategy Change and Impacts: A Review

2.1 Introduction

This chapter critically reviews different sets of literature from six main disciplinary sources: impact investing (Hochtstadter and Scheck, 2015; Ormiston et al., 2015; Rajan et al., 2014; Wood et al., 2013), social entrepreneurship (Luke and Chu, 2013; Chell et al., 2010; Paredo and McLean, 2006; Seelos and Mair, 2005), organisational governance (Gompers et al., 2016; Connelly et al., 2010; Kaplan and Stromberg, 2009), enterprise financing (Cumming et al., 2019; Rajan et al., 2014), strategic management (Porter and Kramer, 2011; Zuniga-Vicente et al., 2005) and institutional theory (Scott, 2001; North, 1990; DiMaggio and Powell, 1983). The initial aim is to determine the current state of knowledge within the discipline, as it relates to the research questions 1 and 2 of Chapter 1. The second aim is to justify the study as it relates to research gaps and research questions. Finally, different sets of literature are reviewed to facilitate the development of a theoretical framework to investigate the influences of impact investment funds on SMEs in BoP communities. The study draws on varied sets of literature from diverse disciplines because of the sparsity of impact investing academic literature (Höchstädter and Scheck, 2015; Ormiston et al., 2015). Further, a theoretical approach based on one particular discipline on their own appears limited. Therefore, an integrated theoretical framework drawing on these disciplines based on the current state of knowledge and research gaps for conducting the study has become essential.

In developing the integrated theoretical framework, the study integrates concepts from four sets of literature, each of which makes an important contribution to the generation of an effective framework from understanding impact investing. First, agency theory is drawn upon to identify how impact investor intentions (finance-first, impact-first) representing principals manifest in the governance, strategy change and impacts carried-out by Bank-based fund (BBF) and Capital Market-based (CMB) managers to influence SMEs in BoP communities. Second, resource-based theories related to strategic adaptation reveals why BBF and CMB fund managers change/ align their strategies to access impact investment capital.

Third, to further explain the processes of strategy-change by BBF and CMB fund managers in ensuring that SMEs simultaneously pursue social impact and financial returns by impact investment funds, social entrepreneurship theory is applied. Social entrepreneurship theory argues that social mission and financial returns are embedded. Fourth, institutional theory (Scott, 2001) and its sub strands of stewardship theory (Basq et al., 2011; Short et al.,2009;), network theory (Micheulucci, 2016; Morley, 2016) and financial intermediation (Boot,2000) are drawn upon for clarifying the financial and enterprise architecture of Ghana within which impact investing and associated impacts occur (empirical application). The framework aims at critically investigating the distinctiveness of finance first and impact first investors, bank-based versus capital market-based impact funds, and how impact investment fills SME financing void as alternative to traditional enterprise financing. These are examined from the perspectives of governance, strategy change and impacts.

First section 2.2 seeks to provide conceptual clarification of impact investing, SMEs, and objectives of impact investors. Two key concepts of governance and strategy change are examined in Section 2.3 and 2.4, respectively, first from the impact investing and other literature to determine the state of knowledge and contribute to an emerging theoretical framework. Section 2.5 details emerging themes from the impact investing and related literature review and indicate why other literature would be helpful. Section 2.6 draws on the social entrepreneurship literature to conceptualise high growth and established SMEs as for-profit social enterprises and clarify other terminologies. Also shows how social entrepreneurship theory helps to explain the pursuit of social impact and financial returns by fund managers and investee SMEs concerning strategy change deliberately. Section 2.7 draws on two streams of institutional theory, new institutional Economic (NIE) and New Institutional Sociology (NIS) to determine how it could help in developing a theoretical framework. Section 2.8 details the emerging integrated theoretical framework for the study and Section 2.9 concludes the chapter.

2.2 Impact investing: State of knowledge, definitions, and conceptualisation

This section seeks to provide conceptual clarification of impact investing, SMEs, and objectives of impact investors. Impact investing literature draws on different

academic traditions because it can be described as an emerging academic discipline. Search strategy involved the use of keywords consisting of 'impact investing', "impact invest*" and "impact investments" in three central databases. Ebscohost Complete, Science Direct and Abi/Inform were the databases consulted from December 2016- January 2017. Possible limitation might be publications that did not use the keywords adopted in this search. Besides, a reference analysis of three sources of literature namely Daggers and Nicholls (2016), Clarkin and Cangioni (2016) and Höchstädter and Scheck (2015) were conducted for identification and addition of any omitted academic papers. The earliest article came from the California Management Review (two). Some were published in entrepreneurship research journal (three), journal of social entrepreneurship (nine), and sustainable finance and investment journals (eight). Others were also from the journal of business ethics (three), private equity journal (two), Voluntary sector journals (four) and social finance literature to develop the theoretical framework. In all, a total of 136 papers constituted the database of impact investing literature developed for the review. Other recent papers were also reviewed during the period through similar search strategy.

The state of academic knowledge within the impact investing discipline appears limited with many practitioner publications (Clarkin and Cangioni, 2016; Höchstädter and Scheck; 2015; Ormiston et al., 2015) which create several research gaps in the literature. Also, while consensus on definition exists, what remains unclear relate to different terminologies used for impact investing and categories of impact investors. Also, the channels of investment flows from investors to investees in African countries require clarification — finally, impacts on SMEs and bottom-of-the-pyramid (BoP) communities in developing countries. Where BoP communities are defined as populations in countries that "live on less than \$2.5 a day" (Oleksiak et al., 2015, p. 217), these clarifications are essential to understanding the research objectives and research questions in Section 1.2 and 1.3. Moreover, how this study advances the knowledge within the impact investing discipline depends on the current state of knowledge and emerging research gaps. Finally, the current state of knowledge, conceptual clarifications, emerging themes and concepts are aimed at developing a theoretical framework for conducting this study.

The literature on impact investing, a nascent area of academic research appears to be growing (Höchstädter and Scheck; 2015; Ormiston et al., 2015).

Some literature has focused on a specific context such as countries/markets (Glanzel and Scheurle, 2016; Michelucci, 2016 and Oleksiak et al., 2015; Geobey and Harji, 2014) and others addressing how to build market infrastructures (Schwartz et al., 2015; Bell and Haugh, 2013). A few sets of literature have attended to the role of Government and public policy (Addis, 2015; Spear et al., 2015; Wood et al., 2013; Wells, 2012) as well as impact measurement and reporting (Vo et al., 2016; Morley, 2016; Reeder et al., 2015; Nicholls et al., 2015; Jackson, 2013). Also, a sizable number of the literature addresses social impact bonds (Arena et al., 2015; Schinckus, 2015; Stoez, 2014; McHugh et al., 2013; Joy and Shields, 2013).

Enterprise financing through venture capital and philanthropic venture funds representing financial intermediaries has also been researched within the impact investing literature (Spiess-Knafl and Aschari-Lincoln, 2015; Bocken, 2015; Bammi and Verna, 2014; Rajan et al., 2014; Stagars, 2014). Similarly, impact investing from developmental and sustainable financing perspectives can be found in the literature (Bhatt and Ahmad, 2017; Hart et al., 2016; Mahn, 2016; Jones and Turner, 2014; Martin, 2013; Geobey et al., 2012). Relatively few sets of literature addressed barriers to impact investing (Ormiston et al., 2015; Combs, 2014), institutional impact investing (Wood et al., 2013) and attitudes of the clergy towards investing (Louche et al., 2012). Also, other literature has focused on impact exchange platforms and crowdfunding (Stubbs, 2017; Tuomi and Harrison, 2017; Lehner and Nicholls, 2014; Lehner, 2013; Lee, 2013; Mendell and Barbosa, 2013). Another emerging set of literature concern social finance as an umbrella term which includes impact investing (Nicholls and Emerson, 2015; Mulgan, 2015; Steinberg, 2015; Benedikter, 2014; Geobey and Harji, 2014; Moore et al., 2012; Jones, 2010).

A few other literatures also view impact investing from social banking perspectives (Hayday, 2014; Weber, 2014) and some consider financing of social enterprises (Lyons and Kickul, 2013). Within the impact investing literature also emerged studies addressing the growth of philanthropic capitalism (Bishop and Green, 2015; McGoey, 2014). A couple more sought to distinguish the term from other concepts (Daggers and Nicholls, 2016; Hebb, 2013). Based on the state of knowledge within the impact investing academic discipline, much attention has been given to impact measurement, social impact bonds, venture capital and philanthropic capital funds as intermediaries and sustainable finance from a development perspective. This, therefore, evidence potential research gaps in the impact investing literature to be uncovered linked to a theoretical framework to

conduct the study. Geobey and Harji (2014, p. 275) made a call for the "need to develop and strengthen governance mechanisms" considering the flow of impact investor capital through intermediaries to investees indicate a vital research gap. The concept has been mentioned in passing as part of ESG in socially responsible investing (SRI) literature with little conceptual clarity.

Table 2.1 provides a summary of academic literature seeking show the state of knowledge focusing on a different dimension of the impact investing of concept.

Table 2. 1 Academic literature on Impact investing

Literature focus	Authors
Market infrastructures	Bell and Haugh, 2013; Schwartz et al., 2015
Government and public policy	Wells,2012; Addis, 2015; Spear et al., 2015
Countries/markets focus studies	Geobey and Harji, 2014; Oleksiak et al., 2015; Glanzel and Scheurle, 2016; Michelucci, 2016
Impact measurement and reporting	Harji and Jackson 2018; Jackson, 2013; Nicholls et al.,2015; Reeder et al., 2015; Vo et al., 2016; Morley,2016
Social impact bonds	McHugh et al., 2013; Joy and Shields, 2013; Stoesz, 2014; Nicholls and Tomkinson, 2015; Schinckus, 2015; Young, 2015
Venture funds and philanthropic venture financing	Bammi and Verna, 2014; Rajan et al., 2014; Stagars, 2014; Bocken, 2015; John and Emerson, 2015; Spiess-Knafl and Aschari-Lincoln, 2015
Development and sustainable financing	Bugg-Levine and Emerson, 2011; Geobey et al., 2012; Seba, 2013; Jones and Turner, 2014; Martin, 2015; Hinton and Penemetsa, 2015; Hart, et al., 2016; Mahn, 2016; Bhatt and Ahmad (2017)
Importance and barriers to impact investing	Combs, 2014; Ormiston et al., 2015
Institutional impact investing	Wood et al., 2013
Religious group attitude towards investing	Louche et al., 2012
Impact exchange platforms and crowdfunding	Mendell and Barbosa, 2013; Lehner and Nicholls, 2014; Lehner, 2013.
Conceptualising impact investing as social finance	Moore et al., 2012; Benedikter, 2014; Geobey and Harji, 2014; Mulgan; 2015; Nicholls and Emerson, 2015; Steinberg, 2015.
Social banking perspectives	Weber, 2013; Hayday, 2014
Social enterprise funding sources	Lyons and Kickul, 2013; Sebea, 2013; Young,2015
Philanthropic capitalism	McGoey, 2014; Bishop and Green, 2015.
Primer, landscape, synthesis of literature and conceptual clarifications	Hebb, 2013; Höchstädter and Scheck, 2015; Clarkin and Cangioni, 2016; Daggers and Nicholls, 2016.

Source: Authors illustration from the impact investing literature.

Definitions of impact investing have centred on two main pillars: investments for non-financial impact and financial return. Some identify both social impact and financial return (Höchstädter and Scheck, 2015; Ormiston et al., 2015; Addis et al., 2013). Financial return refers to at least invested capital preservation, market rate, below-market return, market-beating or risk-adjusted market returns (Höchstädter and Scheck, 2015; Ormiston et al., 2015; Addis et al., 2013). Social impact takes different forms including access to energy, affordable housing, disadvantaged community investments, job creation and access to technology (Höchstädter and Scheck, 2015; Ormiston et al., 2015; Addis et al., 2013). Wood et al., (2013, p. 75)

defines impact investing as “investing that intentionally seeks targeted positive social impact as well as financial return”. Similarly, Höchstädter and Scheck (2015, p. 454) after reviewing papers from academic and practitioner documents (156 in total) summarised that impact investing definitions centre on two core elements “financial return and some sort of non-financial impact”. Finally, it refers to “investments that are primarily made to create tangible social impact but also potentially financial return” (Clarkin and Cangioni, 2016, p. 137).

Tangible social impact takes the form of solutions to “challenging and intractable situations” including poverty, unemployment and access to energy (Clarkin and Cangioni, 2016, p. 137). Social impact from the above definition’s manifests in the form of solutions to wicked, intractable and insurmountable societal problems confronting societies that impact investors are claiming to realise. These problems appear prevalent in BoP communities or in developing countries. Ormiston et al. (2015) suggest that multifaceted solutions have become essential in dealing with what Clarkin and Cangioni, (2016) termed challenging and intractable situations. These challenging situations which qualify as wicked problems include poverty, unemployment, poor sanitation, inadequate housing and access to energy. To this end, impact investors seek to invest with the goal of deliberate realisation of social impact and financial returns simultaneously. This intentionality will be visited in the social entrepreneurship literature for conceptual clarity.

Other academic studies concern investments for social and environmental impact (Daggers and Nicholls, 2016; Ashta, 2012). Impact investing involves “use of capital to create specified social or environmental impact, whether it is through direct allocation capital, investment in funds, or contractual agreements such as SIBs” (Daggers and Nicholls, 2016, p. 6). From this definition, the nature of investment can be direct to investees or indirect capital allocation through intermediary funds. These investments take the form of “venture capital and private equity funds” as well as “mainstream financial institutions” focusing on “targeting geographies and reducing poverty” (Ashta, 2012, p. 74). By inference, venture capital and private equity funds can be described as capital market-based funds and mainstream financial institutions can be classified as commercial banks or bank-based funds. For bank-based funds, impact investments serve as new funding sources compared to traditional sources from the general public. Undeveloped capital markets in developing countries can benefit from impact investments funds as an alternative source of enterprise financing for development and promote

economic growth. The above and subsequent review of the current state of knowledge clarify concepts in the research question and objectives such as commercial banks and venture funds, social impact and financial returns, impact investor objectives, societal problems and deliberate pursuit of social impact and financial returns.

Conceptually, the term impact investing has evolved over the past few decades with association to different concepts including 'blended value proposition' (Emerson, 2003), 'socially responsible investing' (Schueth, 2003), 'social investment' (Nicholls, 2010) and, more recently, 'social finance' (Nicholls and Emerson, 2015). Previous reviews of these concepts have identified some significant differences of emphasis concerning investment strategy, investor motivation, types of investments, and financial instruments deployed, (Hochstadter and Scheck, 2015; Ormiston et al, 2015). Conceptually clarifying synonymous terms while showing differences enable the study to be appropriately positioned and demonstrate originality from other related studies. Table 2.1 below shows these conceptual differences based on a review of the impact investing literature.

Table 2. 2 Summary of key concepts relating to impact investing

Conceptual differences	Blended Value Proposition	Social Investment	Socially Responsible Investing (SRI)	Social Finance	Impact Investing
Key descriptions	Integrating economic and social value in outcomes	Investment aimed at social outcomes from philanthropy, Government and non-profit foundations. Social sector organisations constitute primary investees	Adopt negative screening to select public listed stocks for investments underpinned with environmental, social and governance (ESG) criteria	Capital allocated primarily for social and environmental returns and sometimes financial returns	Deliberate investments into funds and enterprises aimed at social and environmental impact together with financial returns. Focuses on investor motivation and behaviour
Investment Strategy	Combines philanthropic and mainstream investment strategies	Pure social impact and blended value creation	Negative screening, avoid 'sin' stocks, adopt ESG criteria in public listed stock selection	Encompasses the spectrum of capital from philanthropic to SRI for social outcomes	Finance first prioritise commercial returns; impact first focus on social impact with a floor for financial returns
Investor Motivation	The concurrent pursuit of social, financial and environmental value	Consider means-ends and value-ends investor rationality (objective of capital placement)	Market returns, avoid 'sin' stocks, incorporate ESG in stock selection	Social and environmental impact and sometimes financial returns	Financial returns and social/environmental impact
Investment types	Span across sectors namely for-profit, non-profit and business sectors	Non-profit organisations, for-profit and non-profit social enterprises, public sector organisations, voluntary sector organisations	Mutual funds, public listed stocks, exchange traded funds (ETF) that pass the test of 'sin' stocks and ESG criteria	Investment in hybrid organisations, charities, non-profit enterprises, companies, limited by shares, private co-operatives, mutual finance, for-profit limited companies	Direct and indirect investments into funds, enterprises across sectors and geographies. Funds, e.g. Private equity, venture capital, commercial banks, microfinance, social venture capital. Organisations and enterprises, e.g. SMEs, for-profit social enterprises, social purpose organisations
Financial instruments	Grants, program related investments (PRI), loans/debt, community debt finance and recoverable grants	Grants, soft or subordinated debt, quasi-equity	Primarily equity and sometimes debt	Grants, debt, equity, quasi-equity, SRI, soft/subordinated debt	Debt, equity, quasi-equity, grants, Guarantees, convertible debt
Sectors	Health, agri-business, community redevelopment	Health, education, community regeneration, co-operatives, third sector and charities	Publicly listed companies and commercial business sectors	Non-profit/ foundations, business, government and social sectors,	For-profit, business, non-profit sectors in Agri-business, education, health, financial services

Source: Authors illustration from a critical review of literature from Hochstadter and Scheck, (2015); Nicholls and Emerson (2015); Bennett and Iqbal, (2013); Nicholls (2010); and Emerson (2003)

2.2.1 Categories of impact investors

A review of impact investor categories contributes to the development of the theoretical framework and clarifies emerging research gaps. 'Impact first' and 'finance first' represent two categories of impact investors emerging from literature with different risk-return and social impact expectations (Hochstadter and Scheck, 2015; Ormiston et al., 2015). Such categories of investors channel funds to SMEs to realise the social impact and financial returns in developing countries. 'Finance first' impact investors place a premium on the financial returns with a floor to the social impact (Hochstadter and Scheck, 2015). These investors "tend to include banks, pension funds, sovereign wealth funds, and development finance institutions that seek to achieve market-competitive financial returns from investments that offer the prospect of positive social and environmental impact" (Ormiston et al., 2015, p. 355). 'Impact first' investors "preferring to position themselves as 'impact-first' investors; seeking to maximise social or environmental returns while having a minimum required financial returns" (Ormiston et al., 2015, p. 355). Examples include philanthropic foundations (Rockefeller, Esmée Fairbairn, Omidyar Network, Ashoka, and Schwab), venture philanthropy and family offices. Typically, most of these investors are situated at the global and regional levels operating across continents and sectors. Examples include JP Morgan, TIAA-CREF, IFC Fund, Micro Vest and Tridos Bank, Africa Agricultural Capital Fund.

For this PhD project, impact investors comprise both 'finance first' and 'impact first' with different financial risk-return and social impact expectations, investment through bank-based and capital market-based funds to impact SMEs. Finance first investors channel investments through intermediaries with a similar investment objective of priority of financial return over social impact. Similarly, impact first investors deploy capital through intermediaries with emphasis on social impact. Under certain conditions, both finance first and impact first investors pool capital through an intermediary fund with varying risk-return and impact expectations for portfolio investments by the fund. To this end, subsection 2.2.2 review intermediaries of finance first and impact first investors representing intermediaries of funding into SMEs in African countries.

2.2.2 Impact investment intermediaries to investee SMEs in African countries

Finance first and impact first investors use the same or different intermediaries to facilitate the flow of investment capital to SMEs in African countries. The section clarifies impact investment flow channels through the lens of finance first and impact first investors.

'Impact first' and 'finance first' represent two categories of impact investors emerging from literature with different risk-return and social impact expectations (Hochstadter and Scheck, 2015; Ormiston et al., 2015). Such categories of investors channel funds to investee SMEs to realize the social impact and financial returns in developing countries. 'Finance first' impact investors place a premium on the financial returns with a floor to the social impact (Hochstadter and Scheck, 2015). These investors "tend to include banks, pension funds, sovereign wealth funds, and development finance institutions that seek to achieve market-competitive financial returns from investments that offer the prospect of positive social and environmental impact" (Ormiston et al., 2015, p. 355). 'Impact first' investors "preferring to position themselves as 'impact-first' investors seeking to maximize social or environmental returns while having a minimum required financial returns" (Ormiston et al., 2015, p. 355). Examples include philanthropic foundations, venture philanthropy and family offices.

Finance first and impact first investors use the same or different intermediaries to facilitate the flow of investment capital to SMEs in African countries. Finance first intermediaries adopt both bank-based (e.g. commercial banks) and capital market-based (e.g. private equity, and venture capital funds) financial intermediaries as channels to impact SMEs serving BoP communities (Geobey and Harji, 2014). Impact first investors deploy capital through capital market-based funds as intermediaries namely venture philanthropy (PhVC) and social venture capital funds (Spiess-Knafl and Aschari-Lincoln, 2015; Rajan et al., 2014) to SMEs. Table 2.3 illustrates the impact investment intermediaries from the global to country/local level.

Table 2. 3 Intermediaries of Impact investments

Financial Intermediaries				Consulting intermediaries	Others
	Asset Managers	Funding Sources	Examples	Specialised intermediaries that provide market research and other consulting services to actors at the global and regional levels, sometimes called advisors e.g., Dalberg, KPMG, Monitor Institute	Focus on capacity building of organisations through business modelling and teambuilding; also link organisations to external capital providers. They include aggregators, incubators and accelerators
Global	Institutional stewards of managing capital of institutional investors and asset owners	High Net Worth Individuals (HNWI), Pension Funds, Endowment Funds, Private Investors, Governments	JP Morgan, Goldman Sachs, Credit Suisse, UBS Bank		
Regional	Channels of investment flows from global asset managers. Intermediate funds and banks that invest across geographic regions	Multilateral Institutions, Sovereign Wealth Funds, Governments	IFC Africa, Latin-America and Caribbean Fund; Africa Agricultural Fund; Procredit Holdings; Small Enterprise Assistance Funds (SEAF)		
Local	Commercial banks, Private equity funds, Venture funds at the country level. They link investors and SMEs.	Foundations, Governments, Development agencies	Big lottery fund, Sarona Investments		

Source: Authors illustration from critical review of Glanzel and Scheuerle (2016); Michellucci (2016); Ormiston et al., (2015); and Geobey and Harji (2014) literature.

Table 2.4 also describes fund types, categorization and financial instruments deployed at the country level by bank-based and capital market-based intermediaries.

Table 2. 4 Distinctive types and categories of impact investing

Type of intermediary	Category (finance first /impact first)	Bank-based / Capital market-based	Financial Instruments
Venture Philanthropy funds	Impact first	Capital Market-based	Grants, equity, debt, quasi-equity loans
Social Venture Capital Funds (SVCF)	Impact first	Capital Market-based	Debt, Equity, quasi-equity
Private Equity Funds	Finance first	Capital Market-based	Debt, quasi –debt and equity
Venture Capital Funds	Finance first	Capital Market-based	Equity, Debt, convertible debt, preferred equity
Commercial Banks	Finance first	Bank-based	Debt, Guarantees

Source: Authors illustration based review of literature from Spiess-Knafl and Aschari-Lincoln, (2015); Rajan et al., (.2014);Scarlata and Alemany (2010); and Kaplan and Stromberg (2009)

From the previous review, channels or intermediaries represent financial intermediaries for this PhD project. Within the capital market-based segment of the financial intermediaries, different categories of funds are emerging, which require some clarification. Bank-based and capital market-based intermediaries target SMEs serving BoP communities in developing countries to realise the social impact and financial returns (Jones and Turner, 2014).

2.2.3 Impacts of high growth and established SMEs in BoP communities

Impact investor proposition of deliberate investments into enterprises to achieve social impact and financial returns target investee SMEs serving BoP communities in developing countries. The nature of impacts is essential towards the development of a theoretical framework. Subsection 2.1.3 link SMEs to social entrepreneurship detailed in Section 2.5 and explain categories of SMEs that impact BoP communities in developing countries due to social impact. Three categories of SMEs emerge based on literature and evidence during the pilot study concerning investee enterprises that impact funds target to realise the social impact and financial returns. High growth, missing middle and established SMEs represent agents of universal change (Jones and Turner, 2014) especially in developing countries by way of developmental impact in serving BoP communities constitute investees (Rajan et al., 2014). Understanding the characteristics of these categories of investee SMEs

further clarifies the nature of research questions and objectives while contributing to the development of a theoretical framework for the study.

Scholarly debate on definitions of high growth firms and characteristics have been inconclusive based on different measurement indicators (Delmar et al., 2003; Moreno and Casillas, 2007; Hoxha and Capelleras, 2010; Brown et al., 2017). High growth firms can be defined premised on sales and employment growth in both relative and absolute terms (Delmar et al., 2003). They are firms that exhibit "high potential for growth in value" (Nelson and Levesque, 2007; p. 210). Hoxha and Capelleras (2010; p.352) defined high growth firms as "small size firms that show extraordinary growth in terms of sales or employment. Also, Brown et al., (2017) suggest that key literature defining high growth enterprises have been based on the metrics of employment, turnover and assets overlooking profitability. The term 'gazelles' emerge in literature as a sub-set of high growth enterprises comprising enterprises up to 5 years old with an annualized growth rate higher than 25% per annum (Delmar et al., 2003; OECD, 2011). Another definitional perspective of high growth firm is the focus on the evolutionary sense of firms in line with the enterprise growth theory. Based on the elucidated growth literature, this research deviates from high growth enterprises described as 'gazelles' (Delmar et al., 2003), the extraordinary growth in sales (Hoxha and Caperlleras, 2010) and rather concur with investee SMEs that exhibit high growth potential (Nelson and Levesque, 2007).

A spectrum of 'missing middle' (requiring \$20,000.00 to \$2 million impact investments) is positioned to facilitate development and growth in BoP communities (Jones and Turner, 2014). Characteristically, 'missing middle' enterprises are medium size, aged greater than 10 years and more than 20 employees (Robson et al., 2009) and correspond to the growth stage in the enterprise cycle. Kunthev et al., (2012) finds that some percentages of medium-size enterprises are credit constrained; 15.3%- fully constrained, 27.3% partially constrained. Established SMEs represent medium-size enterprises with specific characteristics including above 10 years of business operations, mostly non-family business and innovative (Robson et al., 2009), exhibit proper governance structures, sometimes dominated markets or industries and in terms of growth stage occupy within the transition to large enterprise. Majority of such enterprises might have encountered challenges and had to be restructured to realise anticipated goals. These high growths, missing middle and established SME business activities in developing countries can be viewed as the engine of social entrepreneurship because of simultaneous pursuit of

social impact and financial returns. Also, such enterprises with operations that integrate social impact objective qualify them as social enterprises (Martin, 2015; Lyons and Kickul, 2013). High-growth and established SMEs can potentially cause a systemic change in developing countries in serving BoP communities. These categories of SMEs legally incorporated as for-profit limited liability companies function as market linkages to small producers to the global value chain, which ultimately reduces poverty in BoP communities (Rajan et al., 2014).

To summarize, high growth, missing middle and established for-profit limited liability SMEs can be positively impacted through impact investments to realise expected objectives. Some these goals include access to capital, inclusive development, and growth for all stakeholders; facilitate linkage of small producers to global value chain; jobs creation and improved incomes. Moving forward in this PhD project, high growth, missing middle and established for-profit investee SMEs have been conceptualized as for-profit social enterprises serving BoP communities reviewed further in section 2.5. The lower spectrum of SMEs has been ignored owing to the expected developmental impacts of high growth, missing middle and established SMEs conceptualized as for-profit social enterprises.

The importance of governance cannot be overemphasized from different disciplines including public and voluntary sector (Hustinx and Waele, 2015; Rhodes and Donnelly-Cox, 2014) mainstream corporate finance (Haan and Vlahu, 2016; Daily et al., 2003; Shleifer and Vishny, 1997) social entrepreneurship (Pestoff and Hulgard, 2016; Bacq et al., 2011), development studies (Andrews, 2008; Berenson, 2010) and political governance (Kumah and Brazys, 2016; Al-Marhubi, 2005). However, a dearth of literature within the impact investing discipline creates a research gap based on Geobey and Harji (2014, p. 275) call for the "need to develop and strengthen governance mechanisms" considering the growth of impact investments through intermediaries to high growth and established SMEs for social impact and financial returns. To this end, the study reviews three sets of literature in Section 2.3 to understand the nature of governance that impact investment funds adopt to influence investee SMEs in BoP communities. This review aims at evidencing a research gap and toward the development of a theoretical framework based on the concept of governance.

2.3 The nature of governance influences

The literature on the importance of governance from different disciplines based on a similar literature search strategy as the one in section 2.1 reveals that it is an important mechanism to realise anticipated objectives. Section 2.3 reviews the prior impact investing and other academic literature for three reasons. First, to uncover a research gap as part of the current state of knowledge within the impact investing discipline. Second to show the relevance of first research questions and objectives and finally to identify governance mechanisms of impact investment funds to assist in the development of a theoretical framework. There is a dearth of governance literature within the impact investing discipline (Clarkin and Cangioni, 2016; Höchstädter and Scheck, 2015; Ormiston et al., 2015). A primer on impact investing literature conducted by Clarkin and Cangioni (2016) avails the term governance eight times with one from an academic source, another one practitioner publication. Similarly, in another review by Höchstädter and Scheck, (2015), the term governance appeared seven times mostly as part of environmental, social and governance (ESG) criteria in SRI strategy without conceptual clarity.

The concept of governance has been mentioned in passing as part of environmental, social, and governance (ESG) practices and noted three times in Ormiston et al. (2015) as part of socially responsible investing (SRI) strategy. Rubin (2009) observe that additive developmental venture capital plays a vital effect within the impact investing discipline in realizing the social impact and financial returns objective. Significantly, the recognition that through equity capital, developmental venture capital fund managers influence portfolio companies through board seat (Rubin, 2009). Further, Höchstädter and Scheck, (2015, p. 460) made a call for research that investigates whether impact investors "place limits on the size and ownership structure of investees". From this research gap emerges an associated concept of governance, which is ownership. Michelucci (2016) investigating whether an alternative to the Anglo-Saxon paradigm exists within the social impact investing ecosystem in Italy, finds that backers within the ecosystem usually banks control and manage the investment. Similarly, Glanzel and Scheuerle (2016) note that investee autonomy and investor control create conflicts in mainstream venture funds. Emerging from the above set of impact investing literature are concepts associated with governance which lack in-depth clarification and meaning, namely ownership, control, and board seat.

Governance, which concerns ownership, control, and board representation spans two levels of investor-fund manager and fund manager-SME investee relationships in pursuit of social impact and financial returns. The study, therefore, draws from other disciplines for conceptual clarification of the term governance and associated concepts. Majority of academic literature on corporate governance has focused on the board of directors as a critical governance mechanism. Connelly et al. (2010) suggest that different governance mechanisms exist to control the behaviour and actions of firm managers which could be either internal or external. External governance mechanisms included the market for corporate control, competitive environment, laws, and formal and informal institutions (Johnson et al. 2010). Internal governance mechanism, on the other hand, consists of a board of directors, compensation structures, processes, and procedures for the effective functioning of the business entity (Connelly et al., 2010). From this perspective, governance comprising ownership, control and board representation is viewed in this study as internal governance mechanisms deployed by the impact investment fund managers to influence investee SMEs to realise critical objectives.

Ownership as a form of governance emerges through majority or minority interest in another firm by institutional investors, private equity investors (venture capitalist and business angels) as documented in the literature. Connelly et al. (2010) suggested that the literature on corporate governance identify heterogeneity in ownership governance structures. Ownership governance comprised executive, board, employee (non-executive), block holders, agent owners and private equity ownership. According to the authors, these different ownership governance forms have implications on the performance of firms and the behaviour of managers representing the interest of the owners. Drawing on the private equity and VC ownership governance structures (Connelly et al., 2010), impact investors through a capital commitment to intermediary funds acquire ownership in these funds subject to agreed covenants (Kaplan and Stromberg, 2009). Thus, to curb the opportunistic and conflict of interest behaviour of fund managers, impact investors through ownership governance ensure that fund managers realise the anticipated objectives. Legally, private equity funds are structured as a limited partnership where the investors commit capital as limited partners and fund managers represent general partners manages of the fund (Kaplan and Stromberg, 2009; Metrick and Yasuda, 2011). Due to the separation of the fund manager from the investors who committed the capital, ownership governance mechanism is applied by impact

investors to guarantee alignment of interest. Governance mechanism based on contracts documented is established in "partnership agreement that spells out obligations of each group" (Sahlman, 1990, p. 489; Gompers and Lerner, 2001; Metrick and Yasuda, 2011). Gompers et al. (2016), in a survey of 79 private equity firms with over \$750 billion assets under management, found that governance was paramount to the performance of portfolio companies.

Control governance usually transpires through an equity stake in funds and companies by investors. According to Dalton et al., (2003), equity held allow shareholders (impact investors) to exert control approach on the behaviour of managers (fund managers). Such control rights through ownership, either majority or minority confers decision rights on shareholders (impact investors) especially concentrated decision rights (Connelly et al. 2010). From a venture capitalist and entrepreneur relationship, Scarlata and Alemany (2010, p. 125) observed that "convertible securities efficiently allocate control between the VC investor and the entrepreneur". Theoretically, control governance exerted by investors is aimed at limiting fund managers and ultimately investee enterprises to engage in empire building arising from the separation of ownership from control.

Furthermore, Robinson and Sensoy (2012) observed that contractual provisions between limited partners (investors) and general partners (fund managers) set out compensation modalities. These provisions require fund managers to return to investors contributed capital before carried interest is earned. Moreover, "waterfall" allows investors to receive their money back before fund managers obtain any profit sharing. Additionally, considering how private funds are structured, control governance mechanism emerges. Gompers and Lerner (1996) find that limited partnership agreements contain three main restrictive covenants as evidence of control. Restrictive covenants relating to the management of the fund, activities of general partners and permissible types of investments (Gompers and Lerner, 1996; 2001) manifesting control rights. Kaplan and Stromberg (2009, p.123) note that key "covenants include restrictions on how much fund capital can be invested in one company, on types of securities a fund can invest in, and on debt at the fund level ". Control governance can be inferred from these contractual provisions as potential agency conflicts between investors, and fund managers are addressed through the partnership agreement (Metrick and Yasuda, 2011). Control governance mechanism also occurs through an advisory committee appointed by investors. Cumming and Macintosh, (2003, p. 5) found that investors "appoint an

investment advisory committee that is independent of management" to control the activities of fund managers.

Board representation constitutes another governance mechanism from the corporate governance literature. Based on the private equity fund structuring, investor nominees are represented on the advisory board of the fund (Kaplan and Stromberg, 2009). Board of directors representing the shareholders (investors) constitute a tool to monitor and influence decisions of fund managers in the case of private equity funds (Gompers et al. 2016). Guercio et al., (2003) observed that fund directors of closed-end funds, including private equity, are responsible for evaluating portfolio performance, monitoring and compliance with laws and regulations. Nominees of investors as a board of directors. Existing literature shows that board representation as a governance mechanism, typically are relatively smaller in size and perform better (Gompers et al. 2016). Separation of ownership (impact first and finance first investors) and control (fund management Company) raises governance issues, which further justify the investigation of governance mechanisms in pursuit of dual objectives.

Governance also emerges at the fund manager-investees relationship where the fund invests in SMEs to realize the social impact and financial returns. Governance mechanisms of ownership, control, and board representation surface at the fund manager-SME investee level. Extant private equity and venture capital literature show that fund managers through equity ownership and sometimes debt capital investment exert influences on decisions of SME investee. Cumming et al. (2010) argued that venture capital (VC) funds through equity ownership control cashflows and disbursement while providing management oversight. Metrick and Yasuda (2011) also find that in addition to incremental rounds of investments, VC's exercise right to monitor and evaluate the interim performance of investee companies. Both private equity and venture capital funds from the literature tends to adopt hands-on and [actively participate](#) in the governance of investees to maximize returns for their principals (Metrick and Yasuda, 2011; Kaplan and Stromberg, 2009).

Control governance mechanism in the relationship between fund managers and SME investee takes the form of contractual provisions and board control. Equity investment by fund managers in portfolio companies provides control rights to fund managers. Kaplan and Stromberg (2003) found that representation of venture

capitalist (VC) on investee board of directors represent a means by which VC exert control. Contractual provisions such as various contingent control rights, tag-along, pre-emptive rights for sale of shares and drag-along empower fund managers to influence the investee company management (Scarlata and Alemany, 2010; Metrick and Yasuda, 2011). Sometimes, to control investee companies, venture capitalists stage their investments through incremental rounds subject to the satisfaction of performance milestones (Metrick and Yasuda, 2011). This kind of staging arrangement signifies another dimension of control governance mechanism.

Board representation as a governance mechanism tends to be typical in the private equity and venture capital literature to curb conflict of interest, opportunism and agency problems. Kaplan and Stromberg (2009) showed that through governance engineering, private equity fund managers control the boards of portfolio companies. The authors further added that through formal and informal meetings, non-hesitation to remove non-performing management team, use of expert knowledge for value addition creation, board representation ensure control of investee companies. Gompers et al., (2016) explored from the private equity industry issue relating to governance engineering, operational engineering and value addition of fund managers before and after transactions. Findings showed that private equity investors control the boards of portfolio companies and are actively involved in governance. Primarily this oversight and active involvement through board representation seek to limit empire building (Gompers et al., 2016). According to Cumming, Schmidt and Walz (2010), in countries with poor legal systems, board representation substitute for legality as protection to fund managers due to the cost of information generated from different sources.

Moreover, board representation facilitates transparent and complete access to information relating to investee activity (Cumming et al., 2010). Cumming et al. (2007) found that private equity firms' active engagement in the management of investee companies result in governance changes, including corporate code development, agency problem reduction and enhanced monitoring. Also, Bonini et al., (2012) find a robust positive relationship between venture capital funding and their influence on board decisions and member appointments. In a survey of 79 private equity firms managing over \$750 billion assets, Gompers et al., (2016) found that through governance engineering (how funds control the boards of portfolio companies), fund managers prefer smaller board size (maximum of five) and advise investee companies for enhanced value creation.

As Ashta (2012) observed, impact investors also channel funds through "mainstream financial institutions" to realise developmental objectives in developing countries. Bank-based funds traditionally source capital through financial intermediation (Vashishtha, 2014; Boot, 2000; Peterson and Rajan, 1994). Where financial intermediation means accepting deposits from the general public and on-lending to deficit economic agents (individual, firms and governments). With the emergence of impact investors (finance first and impact first), bank-based funds setups can be described as strategic business units with appropriate governance systems in support of SMEs. Financial intermediation theory provides that through relationship lending, banks utilize control and monitoring as fundamental governance mechanisms (Vashishtha, 2014; Chava and Roberts, 2008; Boot, 2000; Peterson and Rajan, 1994). According to Peterson and Rajan (1994), the length of the relationship enhances lenders (banks) control and deepen the relationship. Chava and Roberts (2008) also suggest that borrowers retain control rights based on covenants in loan contracts provided there is full compliance with covenants. Covenants violation shift rights to banks for either termination of loans or demand for early repayment. Therefore, covenants in loan contracts are deployed by banks to control customers (Vashishtha, 2014).

Peterson and Rajan (1994) examining the benefits of relationship lending finds that monitoring provides bank access to reliable information through accounts. Further, Boot (2000) argues that relationship lending facilitates monitoring and screening to overcome information asymmetry. Chakraborty and Ray (2006) assert that banks typically monitor firms to resolve agency problems, which makes bank financing expensive. Authors find that bank monitoring does not ultimately eliminate agency problem but reduce exposure to a high-risk project (Charkroboty and Ray; 2006). According to Vashishtha (2014) rights, which accrue to banks through loan covenants and serve as a disciplinary mechanism for banks to influence the management of firms to realise critical objectives. Monitoring as a governance mechanism is deemed to increase post covenant violation (Tan, 2013). The governance issues of ownership, control and board representation emerge especially for capital market-based-funds, where impact investments are concerned due to the simultaneous pursuit of social impact and financial returns.

In summary, this review of literature from private equity, corporate governance and finance disciplines reveal that bank-based funds adopt control and monitoring as the central governance mechanisms. Capital market-based funds

employ ownership, control and board representation types of governance mechanism to influence SMEs that pursue dual goals. Impact investing literature showed a research gap on governance mechanisms that funds utilize to influence investee SMEs. To this end, the study drew on other disciplines to demonstrate the nature of governance influences that bank-based and capital market-based fund managers deploy to ensure investee SMEs realise the social impact and financial returns. Banks might set up these funds as strategic support units, compared to capital market-based funds. The capital market-based fund adopts the limited partnership model with ownership, control and board representation to govern investor-fund manager relationship. Similar governance mechanisms manifest at the fund manager- investee SME level for capital market-based fund managers.

2.4 Strategy change of impact investment fund managers

Section 2.4 focuses on strategy change of impact investment fund managers who hitherto existed as agents of private wealth creation. This part of the literature review addresses the second research question. It examines the impact investing, strategic management and social entrepreneurship literature in order to discover how the strategies of bank-based and capital market-based fund managers change when they are offering impact investment products to SMEs in search of multiple objectives. Further, the review seeks to contribute towards the development of a theoretical framework integrating the concept of strategy change or alignment. Previously, bank-based and capital market-based intermediary strategies tend to focus on sectors, geographies, asset classes that generate above-market returns to shareholders under the maxim of shareholder value maximization. Where strategy is defined as "choosing a unique position and distinctive value chain to deliver on it" (Porter and Kramer, 2011). This motivation and objectives of maximizing shareholder wealth led to financing and investing by bank-based and capital market-based fund managers respectively in enterprises that exhibit viability for high financial returns only in varied geographies and sectors to the neglect of social impact.

The emergence of impact investing reveals evidence of strategic change or alignment among key stakeholders in the impact investment ecosystem including investors, fund managers and investee SMEs. The ostensible reason for strategy changes and alignment is to meet impact investor intentionality or deliberate objectives of social impact and financial returns (Höchstädter and Scheck, 2015;

Ormiston et al., 2015; Rubin, 2009). Impact investing literature indicates the nature of strategies that existing actors are expected to adapt or align to within the impact investment ecosystem. Three major actors include investors, fund managers and investee SMEs in deliberate search of social impact and financial returns in BoP communities (Höchstädter and Scheck, 2015; Ormiston et al., 2015; Rajan et al., 2014). A critical examination of the literature reveals concepts such as adapted portfolio strategy (Brandstetter and Lehner 2015), demography, geography and sectors (Höchstädter and Scheck, 2015), integrated approach strategy (Ormiston et al., 2015), 'finance and Impact' strategy (Höchstädter and Scheck, 2015; Ormiston et al., 2015), expected risk-return characteristics (Ormiston et al., 2015; Wood et al., 2013) and integrated ESG strategies (Wood et al., 2013). These strategies, on their own, reflect current approaches that impact investors are seeking to deploy to overcome challenges of impact investing (Ormiston et al., 2015).

Further, impact investors at the institutional investor level expect intermediary fund managers to either adapt or align with these strategies in order to deliberately realise expected social impact and financial returns objectives. At the impact investor level, Ormiston et al. (2015) and Wood et al. (2013) noted impact investment strategies that can be applied at the portfolio level for institutional asset owners. Impact investment strategies in the words of Wood et al. (2013) reside at the portfolio level of institutional investors and could either be stated explicitly or not in investment policy statements or fund strategy documents. Wood et al. (2013, p 81) further submit that institutional asset owners target impact investment strategies within asset classes through conventional tools and benchmarks in making allocation and investment decisions. In doing so, Wood et al. (2013) suggest an integrative impact investment strategy which focuses on intermediaries for deal pipelines. Authors claim that an integrated impact investment strategy will create a universe of deal pipelines for realising impact investment objectives for institutions interested in impact investing. Ormiston et al. (2015, p.356) identified five challenges confronting institutional investors relating to impact investing among which "uncertainty as to where impact investment is included within modern investment portfolio" emerged.

The authors submitted that an impact investment strategy based on an integrated approach could be beneficial to institutional investors. Based on this integrated approach, Ormiston et al. (2015) find that institutional investors should focus on finance-first investment strategy due to fiduciary duty with a floor on social

impact. Besides, institutional investors should adopt the same due diligence processes with additional social impact consideration to overcome the uncertainty of impact investment strategy. Additionally, Brandstetter and Lehner (2015) proposed an adapted portfolio optimization strategy based on a risk-return relationship that incorporates social impact parameters as well as traditional financial returns. It further shows that incorporating social impact in investment decisions at the portfolio level by institutional investor and fund level require strategy change that has not been adequately captured in the impact investing literature. An impact investment strategy also encapsulates sectors, geographies and demography emerging from the impact investing literature as target segments on the field. Höchstädter and Scheck, (2015) discussed the impact investment strategy that addresses geography, demography and sectors because of impact objectives. Demography and geography refer to end-beneficiaries of impact investment.

Emerging from the analysis, BoP communities represented vital beneficiaries. However, authors find that impact investment must not necessarily focus only on such demography (Höchstädter and Scheck, 2015). In terms of geography, findings by Höchstädter and Scheck, (2015) shows that impact investment does not necessarily address underserved and impoverished communities only but rather spans across geographies in both developed and developing communities. This corresponds to the general school of thought that impact investment span across geographies, all asset classes and impact areas endorsed by the Global Impact Investing Network (Ormiston et al., 2015). Another impact investment strategy emerging in the literature deals with sectors (Höchstädter and Scheck, 2015; Ormiston et al., 2015; Addis et al., 2013). According to Höchstädter and Scheck, (2015), multiple or specific sectors emerge in fulfilment of expected objectives. Höchstädter and Scheck, (2015) further find no limitation on a specific sector, and observed that varied sectors emerged namely agriculture, health, education, microfinance, housing, financial services, water, and energy (Höchstädter and Scheck, 2015).

These sets of impact investing literature (Brandstetter and Lehner 2015; Höchstädter and Scheck, 2015; Ormiston et al., 2015; Rajan et al., 2014; Wood et al., 2013) show the current state of knowledge of 'what' regarding an impact investment strategy and less of 'why' and 'how'. It further reveals the need for strategy change if bank-based and capital market-based fund managers and investee SMEs seeks to implement an impact investment strategy. Theoretically,

answering the 'why' and 'how' of strategic change or alignment by bank-based and capital market-based funds show a research gap in the impact investing literature which justifies research question 2 in Section 1.3. The study, therefore, draws on strategic management literature to understand the 'why' of bank-based and capital market-based fund manager strategy change or alignment.

Extant strategic management literature identifies two views on 'why' and 'how' organizations change strategy namely strategic adaption (Porter and Kramer, 2011; Zuniga-Vicente et al., 2005; Porter, 1980) and inertial views (Hannan and Freeman, 1977). Strategy change arises from misalignment of environmental conditions and current operating strategies of organisations (Vicente-Lorente and Zuniga-Vicente, 2006; Porter, 1980). The main argument of strategic adaption view is that managers of an enterprise change strategies overtime on the one hand either rapidly or flexibly or slowly and gradually due to firm-specific factors as sources of rigidity or change (Vicente-Lorente and Zuniga-Vicente, 2006). Strategic adaption theorist argues that managers of organisations review and evaluate environmental conditions and change strategies or align with emerging trends for survival and growth. Resource-based theorist also posits that the board of directors of organisations tend to be boundary spanners between external environment and managers of organisations. Thus, the consequences of changing environmental conditions, turbulent or gradual, negatively affect organisational performance, access to resources and survival.

Options for managers is, therefore, to either change strategy or ensure alignment with environmental conditions. Dowling and Moran (2012) defined alignment in the context of strategic choice and reputation, focusing on external and internal fit. Empirically, Zuniga-Vicente et al. (2005) find that environmental events, including deregulation in the external context, facilitate strategy change. Authors also find that other external events, such as liberalisation inhibit strategy change. Vicente-Lorente and Zuniga-Vicente (2006) examining time-variant determinants of strategy change using data from Spanish banks, 1983-1997 finds that strategic change from both adaption and inertial perspectives should be viewed as 'time' or 'context-dependent. Drawing on the strategic adaption view of alignment to external environment context, bank-based and capital market-based fund managers either adapt or align their strategies for external and internal fit to access resource for survival. Bank-based fund managers dominate the financial system in most developing countries (Beck, 2013) and a significant source of external funding for

SMEs (Beck, 2013; Ayyagari et al. 2011; Le and Nguyen, 2009). However, capital secured for on-lending to SMEs through financial intermediation tend to be short-term (Boot, 2000).

Further, perceived risks, high level of default and weak governance system of SMEs compel bank-based funds to allocate capital to alternative risk-free instruments or ventures. Also, unfavourable macro-economic environment affects the capital adequacy and the useful influences of bank-based funds in supporting SMEs. Consequently, bank-based fund managers adapt or align their strategies to access impact investor resources for liquidity management, capital adequacy, long-term funding, financial sustainability, and global citizenship.

Capital market-based fund managers also adapt or align their strategies to access impact investor resources to deliver social impact and financial returns. Based on structure, sectors, geographies, deal sizes, financial instruments deployed and an integrated strategy, capital market-based fund managers adapt their strategies to meet impact investor needs (Höchstädter and Scheck, 2015; Ormiston et al., 2015; Kaplan and Stromberg, 2009; 2003). Expectations from finance first and impact first investors make a strategy change by capital market-based fund managers quite unavoidable. In adopting these strategies, high growth, missing middle and established SMEs targeted seeks to realize the high social impact and financial returns to reduce the intractable societal problems.

Strategy management literature uncovered why bank-based and capital market-based fund managers adapt or align their strategies. However, social entrepreneurship is drawn upon to explain how bank-based, capital market-based and investee SMEs deliberately realise the social impact and financial returns. The purpose is first, to conceptualize simultaneous pursuit of social impact and financial returns and then contribute towards the development of a theoretical framework. Social entrepreneurship theory argues that deliberate and simultaneous pursuit can be judged by first uncovering the commercial and social transformational goals of the actors. Seelos and Mair (2005) empirically find a business model where commercial profits are used to support social mission such as education and health represent a strategy to support BoP communities. Peredo and McLean (2006) also find that an organization can adopt a complementary strategy where commercial profits are used to support social impact. Batillana et al. (2011) suggested an integrated hybrid business model which produces social impact and financial returns

within a unified strategy. Microfinance institutions have been observed to have adopted an integrated unified strategy which ensures the deliberate pursuit of social impact and financial returns simultaneously (Batillana et al., 2011; Peredo and McLean 2006; Seelos and Mair; 2005). These sets of literature based on social entrepreneurship theory shows the 'how' of strategy change or alignment of an investor or enterprise and the extent to which these are intrinsic to the mission, values and aspirations/goals of the enterprise/fund (Batillana et al., 2011; Peredo and McLean 2006; Seelos and Mair; 2005). The deliberate pursuit of social impact and financial return objectives of impact investors is connected to strategy change from the social entrepreneurship literature.

Social impact (defined as scale and reach of investee services or products) can take several forms including an enterprise or fund investing in providing goods and services in the low income or BoP communities (Rajan et al., 2014). Further, it comprises affordable housing to underserved communities, improved health, enhanced education, clean water, and access to energy (Höchstädter and Scheck (2015). Financial returns can be described in the form of revenue-generation, profit, return on investment or assets and repayment of principal and interest to investors (Ormiston et al., 2015). Moreover, in an emerging institutional field like impact investing, failure of existing capital market-based funds to change strategies can be detrimental, given competition from new entrants. Further reviews are detailed in section 2.6.

In summary, the impact investment literature mentions integrated strategy, adapted portfolio strategy (Brandstetter and Lehner 2015), geography and demography as well as sectors (Höchstädter and Scheck, 2015; Rajan et al., 2014), finance and impact strategy (Höchstädter and Scheck, 2015; Ormiston et al., 2015) and integrated strategy (Ormiston et al., 2015; Wood et al., 2013). Further, multi-sector focus portfolio strategy (Höchstädter and Scheck, 2015; Ormiston et al., 2015). Finally, a strategy of deploying different financial instruments such as while debt, equity and quasi-equity, including credit enhancement instrument (Höchstädter and Scheck, 2015; Ormiston et al., 2015). These strategies reveal little empirical evidence about 'why' of strategy change. Strategic management theory of strategic adaption or alignment explains why bank-based and capital market-based funds either alter or align their strategies for external and internal fit (Porter and Kramer, 2011; Zuniga-Vicente et al., 2005; Zuniga-Vicente et al. 2005; Bocker, 1989). Access to impact investor resource constitutes one of the reasons for

alignment and strategy change. Social entrepreneurship literature shows that bank-based, capital market-based and investee SMEs could adopt unified strategy (Batillana et al., 2011), complementary strategy (Peredo and McLean, 2006) and commercial profits invested in the social sector (Seelos and Mair, 2005). These models from social entrepreneurship literature reveal the 'how' of strategy change or alignment to realise the social impact and financial returns simultaneously.

2.5 Emerging themes and concepts

Based on the preceding literature review, two themes emerge for understanding how the governance of impact investments influences the realisation of financial returns and societal impact in BoP communities. First, impact investing is defined as a direct and indirect investment through bank-based and capital market-based funds into SMEs for social impact and financial returns in this study. The term is conceptualized to encompass direct and indirect investments by finance first and impact first through bank-based and capital market-based funds, to SMEs serving BoP communities. Direct investments mean, capital allocation to SMEs to create social impact and financial returns. Indirect investments entail either bank-based or capital market-based fund investing in another financial intermediary for on-lending ultimately to SMEs. Other investments into service providers, public listed companies and social impact bonds are outside this conceptualization. Finance first represent a category of impact investors that focus on the market return and prioritize financial returns to social impact. Impact first focuses on social impact with a floor on financial returns. These two categories of investors serve as funding sources of impact investment flows to bank-based fund and capital market-based funds. Bank-based and capital market-based funds have been conceptualized as channels/intermediaries of impact investment flows to SMEs serving BoP communities. SMEs constitute the ultimate recipient of impact investment capital to realise the social impact and financial returns in serving BoP communities. Impact investing is conceptualized as both 'finance first' and 'impact first', direct and indirect investments through bank-based and capital market-based funds as intermediaries into SMEs serving BoP communities.

The second theme is governance, which has so far received minimal attention in the impact investing academic literature. Research is needed to examine the governance mechanisms of impact funds flow from investors to investees. This shows a research gap in line with the call from Geobey and Harji (2014, p. 275) for

the "need to develop and strengthen governance mechanisms" considering the flow of impact investments from investors to investees. Bank-based funds functioning as strategic business units within their traditional corporate structure raises governance and strategy issues which require detail empirical study. Moreover, it is unclear whether bank-based or capital market-based funds model represent the most effective tool for investee SMEs to realise the social impact and financial returns expectation of impact investors. Capital market-based funds adoption of profit-making private equity/venture capital model reveals that limited partnership contractual governance arrangement as the dominant organizational form. Partnership agreements that contain restrictive covenants, board representation on the fund management company, independent advisory investment committee comprise some of the governance mechanisms at the investor-fund manager level.

Governance arrangements affect the strategies of impact funds and the SMEs they finance (Ebrahim et al., 2014). Thus, a change in strategy is required that aligns the investor-fund manager and fund-manager-investee interest in the pursuit of social impact, and financial returns are under-researched and therefore justifies this study. Some strategies of funds uncovered comprise adapted portfolio optimization strategy, finance and impact first strategy, investee production technology adjustment, multi-sector portfolio strategy, informal incentives to subsidize impact of investees.

Governance mechanisms addresses how impact investors ensure that bank and capital market-based fund managers and SMEs realise agreed objectives. However, governance is not adequate in addressing other aspects such how fund managers and investee SMEs deliberately pursue simultaneous impact and financial returns in BoP communities. Moreover, while the impact investing literature explains the 'what' of an impact investment strategy in section 2.4, strategic management theory assist in understanding 'why' BB and CMB fund managers change their strategies and less of the 'how' to realise social impact and financial returns. The next section 2.6 therefore draws on the social entrepreneurship literature towards contributing to the development of an integrated theoretical framework. Many of the studies in finance, economics and entrepreneurship literature view SMEs as purely commercial ventures. Adopting a social entrepreneurship perspective provide significant opportunities to critically understand, explain and evidence findings of strategy change by impact funds and investee SMEs based on the research gap. A radical shift is therefore needed in the

framing of SMEs as agents of development in BoP communities through social entrepreneurship.

2.6 Social entrepreneurship perspective of the theoretical framework

The social entrepreneurship literature, which has proliferated in the last two decades, has strong parallels with impact investing. The study, therefore, probes the social entrepreneurship literature to see what insights it can provide. Explicitly, for conceptual clarity on SME activities as social entrepreneurship as well as conceptualize high growth, missing middle and established SME ventures as social enterprises. The study acknowledges that other disciplines including finance, entrepreneurship and economics view SMEs as purely commercial ventures and therefore adopting social entrepreneurship perspective shows evidence of research gap and contribute to the development of an integrated theoretical framework. A similar theme-based approach to literature search and review that was presented in section 2.1 was also employed in the review of the social entrepreneurship literature. Keywords and phrases searched includes "social enterpr*", "social entrepreneurship", "social enterpr* and governance", "social enterpr* and institutions", social enterpr* as literature search strategy from Science Direct and Ebscohost business source databases.

2.6.1 Definition and conceptualization of social entrepreneurship

Social entrepreneurship as a concept continues to dominate discussion in academic literature in different jurisdictions. Some academics have sought to conceptualize the term through a focus on its two constituents of "social" and "entrepreneurship" (Luke and Chu, 2013; Peredo and McLean, 2006; Dees, 1998). The social dimension represents the mission or purpose of the venture (Luke and Chu, 2013; Dees, 1998) and also connotes the outcome of the business venture, which is "to address social problems" (Zahra et al., 2009, p. 520). The entrepreneurship angle of the concept appears connected with "methods of market-driven enterprise" (Peredo and McClean, 2006, p. 58). In order to define social entrepreneurship concept for this study, some definitions of authors were reviewed based on literature in Latin America, Asia and Africa, thus inspiring the definition for this research. Besides, some of the authors illustrated with case studies of enterprises in Africa,

Asia and Latin America that shares similar characteristics of high growth, missing middle and established SMEs that emerged in section 2.0 of the impact investing literature review. Seelos and Mair (2005, p. 243-244) defines the concept as "Social entrepreneurship creates new models for the provision of products and services that cater directly to basic human needs that remain unsatisfied by current economic or social institutions" or an extended definition "as entrepreneurship that creates new models for the provision of products and services that cater directly to the social needs underlying sustainable development goals such as MDGs". For Mair and Marti (2006, p. 38), social entrepreneurship:

"...as a process involving the innovative use and combination of resources to pursue opportunities to catalyse social change or address social needs", or "social entrepreneurship as a process of creating value by combining resources in new ways. Second, these resource combinations are intended primarily to explore and exploit opportunities to create social value by stimulating social change or meeting social needs. And third, when viewed as a process, social entrepreneurship involves the offering of services and products but can also refer to the creation of new organizations" (Mair and Marti, 2006, p. 38). Along a similar line, Zahra et al. (2009, p. 522) express the notion that "Social entrepreneurship encompasses the activities and processes undertaken to discover, define, and exploit opportunities in order to enhance social wealth by creating new ventures or managing existing organizations in an innovative manner".

Two critical themes observed in the above literature are an activity (which can be commercial or social) and innovative processes such as market-based models and income-generating approaches (Nicholls, 2009; Zahra et al., 2009; Mair and Marti, 2006; Seelos and Mair, 2005). Social entrepreneurship deploys a combination of resources including social, human, financial and psychological mobilization or reconfiguration (Mair and Marti, 2006). A third emerging theme concerns the combination of the resources aimed at producing goods and services that remain unsatisfied or inadequately supplied (Nicholls, 2009; Seelos and Mair, 2005). Some expected outcomes include job creation, social value addition, poverty reduction and wealth creation among the poor (Peredo and McLean, 2006). Finally, social entrepreneurship activities aimed at creating social value and solution to social needs (Luke and Chu, 2013; Zahra et al. 2009; Seelos and Mair, 2005). To this end, social entrepreneurship is defined as an innovative entrepreneurial

activity/process of exploiting both social and economic opportunities by a profit-making limited liability SMEs to address societal problems. Thus, social entrepreneurship conceptualization in academic literature has focused on different dimensions.

Some include (1) motivation (Zahra et al, 2009; Peredo and McLean, 2006), (2) mission (Dees, 1998), (3) activity or process (Mair and Marti, 2006), (4) opportunity identification (Martin and Osberg, 2007; Austin et al., 2006) and (5) impact or outcomes (Seelos and Mair, 2005). In this study, the concepts social entrepreneurship and social enterprise are separate and distinct with some overlaps. Social entrepreneurship activities ultimately realise the social impact and financial returns as impacts or outcomes. Seelos and Mair (2005) investigating social entrepreneurship business models to serve BoP communities finds that value creation comprises economic, social and cultural values. In one case study, a company based in Egypt called Sekem, authors illustrated that outcomes of social entrepreneurship activity consist of economic profit and social impact. The venture generates economic profits that are invested in social sectors, including adult education centre, schools, and medical centre (Seelos and Mair, 2005). Thus, through service delivery and other ventures of Sekem, poverty level reduces, and basic human needs are met as social impact while generating economic profit. Social entrepreneurship activities, therefore, garner both social impact and financial returns.

The motivation for social entrepreneurship activity can be segmented into purely social, a mix of economic and social, and purely economic or financial in a continuum (Peredo and McLean, 2006). Two extremes on a continuum of pure profit-making activity of the business venture with an implicit social objective and real social impact as an underlying motivation. The third is a mix of the two with social and economic goals. These goals may not necessarily be equal, but some slight variation in the focus might occur. Peredo and McLean (2006), therefore suggests that provided social goals are present or partly for instrumental reasons does not matter in qualifying activity as social entrepreneurship. Therefore, in terms of motivation, it is argued in this study that a profit limited liability enterprise with financial returns and social impact objectives, whether explicit or implicit, qualifies as social entrepreneurship.

Social entrepreneurship as an activity or process encompasses the production of goods and services involving resource combination. Mair and Marti (2006) provide three factors that identify a social entrepreneurship activity by suggesting that as a process, it involve innovative resource combination in a distinct manner. Also, the resource combination aims at opportunity exploitation in creating social impact. Finally, in all these, the social entrepreneurship venture offers goods and services either through a new venture or existing business (Mair and Marti, 2006). While acknowledging the existence of individual and collective models (Spear, 2006), the nature of activities is neither individual nor collective but rather venture engaged in the transformational process of goods and services through a production unit (Mair and Marti, 2006). Therefore, in terms of activity, social entrepreneurship involves the transformation of goods and services continuously within a newly established for-profit making legal entity in different sectors of the economy.

Based on the literature reviewed so far, high growth and established SME activities qualify as social entrepreneurship under three main conditions: (1) motivation, (2) activities and (3) impact. In doing so, poverty reduces, unemployment declines, household income improves, enhanced access to housing as well as access to efficient and reliable energy are realised as social impact. Financial returns for the enterprise occur in the form of earned-income, revenue generation, profitability and repayment of invested capital to bank and capital market-based funds.

2.6.2 Defining and conceptualising SMEs as for-profit social enterprises

The concept of social enterprise has been differently defined in social entrepreneurship literature. Some academics have used the term social enterprise and social entrepreneurship interchangeably (Luke and Chu, 2013; Peredo and McLean, 2006). An attempt is made to review some definitions of social enterprises in literature where the authors reviewed literature from Latin America, Asia and Africa. These sets of literature serve as inspiration for the definition of a social enterprise in this study. From the perspective of Mair and Marti (2006, p. 37) "social enterprises refer to the tangible outcome of social entrepreneurship". This definition fails to describe whether a social enterprise is a business venture, ignores the motivation of social enterprises and perhaps the purpose of a social enterprise. Austin et al. (2006, p. 2) point out that

“... social entrepreneurial venture can thus be conceptualized as a vehicle for creating social value, either directly or through facilitating the creation of social value with and by others”. It is unclear about the type and nature of ‘vehicle’ referred to in the latter definition.

Luke and Chu (2013 p. 765-766) define social enterprise.... " as an organisation that exists for a social purpose and engages in trading to fulfil its mission, using market-based techniques to achieve social ends". By inference, this definition of social enterprise can be described as a non-profit organization deploying a market-based approach and trading as an earned-income strategy to realise social objectives. It is therefore difficult to be applied in the context of Africa and especially enterprises operating in the business sector like SMEs. A social enterprise is defined as for-profit limited liability company owned individually/team operating principally in the business sector producing goods and services with profit motive among other goals to realise the social impact and financial returns.

Social enterprises have been conceptualised differently in specific geographical areas across the globe. It is therefore prudent to conceptualise the term because wholesale adoption of social enterprise usage from the UK, USA, Europe and other geographies to an African context appears problematic. Differences and magnitude of societal problems (Ormiston et al., 2015), especially in Africa, vary relative to other geographies. A social enterprise is argued as an organisational type or form addressing societal problems. A high growth established and missing middle SMEs can be described as for-profit social enterprises manifesting the activities of social entrepreneurship (Chell et al., 2010). The reason is that "not every enterprise- social or otherwise- is entrepreneurial" (Luke and Chu, 2013, p. 764). Austin et al., (2006, p. 2) claims that "the organisational form a social enterprise takes should be based on which format would most effectively mobilise resources to address the problem".

Further, such an organisation can take the form of non-profit with non-distribution of profit, for-profit with embedded social purpose or hybrid (Austin et al., 2006). By inference high growth and established SMEs can be categorised as social enterprises. Plausibly, a high growth and established SMEs possess the capacity to mobilise resources to address societal problems.

Chell et al. (2010, p. 486) argue that social enterprises are organisations that social entrepreneurship activity manifest. Moreover, the activities of a social

enterprise organisation can take place in either "for-profit sector", corporate social responsibility related activities or in the non-profit sector". Therefore, social enterprise can be described as organisations whose activities occur across sectors including non-profit, business, or governmental sectors (Chell et al., 2010). In this regard, high growth and established SME activities spanning across sectors and mainly for-profit-sector can also be described as social enterprises.

From the perspective of "social purpose", high growth and established SMEs can be identified with for-profit social enterprises (Luke and Chu, 2013, p. 765). Luke and Chu (2013) describe social enterprises as organisations that combine commercial activities with social objectives. In the authors view, 'enterprise' can be associated with for-profit, non-profit activities and commercial activity arguing that "social enterprise represents a form of social business or venture" (Luke and Chu, 2013, p. 765). The authors raised the issue of whether all social enterprises are entrepreneurial. The social purposes of organisations that combine commercial activities and social objectives qualify high growth, missing middle and established SMEs as for-profit social enterprises.

In summary, high growth and established SMEs can be considered as for-profit social enterprises under three primary conditions; (1) Resource mobilization ability to address societal problems (2) venture activities are occurring across sectors especially the business or for-profit sectors and (3) outcomes that account for social purpose and financial returns. Also, for-profit limited liability SMEs described as social enterprises because they can mobilize resources effectively from bank-based and capital market-based impact first or finance first investors to address intractable societal problems. To address these intractable societal problems requires personal commitment and agency by key actors including investors, officials of bank-based and capital market-based managers and entrepreneur owners of these SMEs representing agents of social transformation in BoP communities. High growth, missing middle and established SMEs conceptualized as for-profit social enterprise apply different strategies in fulfilling the objective of deliberate social impact and financial returns in BoP communities. These different strategies enable access to impact investment capital for scale and growth. Social entrepreneurship literature perspective on the deliberate pursuit of social impact and financial returns to evidence of the 'how' of strategy change to complement the review in Section 2.4.

2.6.3 Deliberate pursuit of social impact and financial returns

This subsection reviews the social entrepreneurship literature to uncover the how of strategy change applied by fund managers and SMEs in BoP communities. In section 2.4 impact investing literature review showed impact investment strategies expected from fund managers and investee SMEs. However, strategic management literature explained why fund managers and investee SMEs either change or aligned their strategy to environmental conditions. How the strategy change of fund managers and investees manifest in reality is examined from the social entrepreneurship literature which has developed over the past two decades.

Social entrepreneurship theory argues that social enterprises design and apply different strategies that ensure the realisation of social impact and financial returns (Peredo and McLean, 2006; Seelos and Mair, 2005). These strategies implemented can be integrated, unified hybrid, complementary, stand-alone, and embedded (Battilana et al., 2012; Austin et al. 2006; Peredo and McLean, 2006; Seelos and Mair, 2005) completes the review with an empirical literature.

2.6.4 Fund managers and SME entrepreneurs as agents of social transformation

The subsection reviews the individual role of financial intermediary officials and entrepreneurs as agents of social impact and financial returns in BoP communities. This review draws from the social entrepreneurship literature to conceptually clarify and obtain insights about the actual agents of transformation who deliberately pursue social impact and financial returns simultaneously linked to the second research question. Social entrepreneurship theory suggests that social entrepreneurs are agents of social transformation through innovative methods, funding, and motivation (Luke and Chu, 2013; Zahra et al., 2009; Seelos and Mair, 2005; Alvord et al., 2004). The values of an entrepreneur and fund managers are instrumental in allocating resources that create both social impact and financial returns. SME entrepreneurs or owner-managers are key actors in the pursuit of social impact and financial returns. Such managers exploit opportunities through risk-taking, especially in resource constraint environment in developing countries. Zahra et al. (2009) find that these SME entrepreneurs described as bricoleurs effect transformation in providing a solution to societal needs.

These entrepreneurs were categorised as social bricoleurs, social constructionist and social engineers (Zahra et al., 2009). Ruebottom (2013), in a study of ten for-profit and non-profit social enterprises, suggest that owner-managers of the investigated enterprises can be described as social entrepreneurs. Kimbu and Ngoasong (2016) in a study of women as vectors of social entrepreneurship, described these entrepreneurs as social entrepreneurs based on simultaneous pursuit of social and financial goals. In summary, fund managers and SME owner-managers are social entrepreneurs based on motivation and agency to concurrently pursue hi social and economic goals (Kimbu and Ngoasong, 2016; Ruebottom, 2013; Zahra et al., 2009). An institutional theoretical perspective is reviewed in section 2.7 to justify why an integrated theoretical framework approach for this study is appropriate instead of relying on one specific theoretical perspective.

Other theoretical approaches were also reviewed prior to the development of the integrated theoretical framework for examining the governance dimension which were dropped based on the research objectives, the focus of the study and a plausible application to the research setting.

Stewardship theory assumes that decision makers of the enterprise (CEO, top management team and managers) are motivated by altruism, collective interest and less self-interest (Basq et al., 2011). The “management-philosophy” involves “directing efforts toward organizational rather than personal objectives” (Short et.al, 2009, p. 176). Further, stewardship theory argues that manager’s place “high importance on collaboration, trust in the community and long-term orientation” (Short et al., 2009, p. 176). This implies that the management’s desire is to do a great job and act as effective stewards of organizational resources (Cornforth, 2004) contrary to the proposition of agency theory. In applying this governance model, the board role can be described as improving organisational performance unlike compliance in the agency governance model. Thus, the board through representation of independent directors with different expertise are viewed as partners in adding value to managerial decision making.

Network theory is another theory which was reviewed and subsequently dropped because of the research objectives and actors investigated. Network theory focuses on the interplay of different actors within an ecosystem in facilitating the realisation of common outcomes or objectives. Networks - where the market stakeholders represent nodes and their relations, links in the view of Michelucci

(2016, pg.5) allow examination of a market at the global, regional, and national levels of interaction. Network theory facilitates the understanding of how outcomes emerge including the nature of the outcome. Empirical studies that applied the network theory within the impact investing literature comprise Michelluci (2016) and Morley (2016) who investigated the social investment market in Italy and the United Kingdom respectively. However, this study is not interested in understanding the impact investment market in Ghana or the extent of interactions among the actors in Ghana's ecosystem. These reasons explain why the study adopted an integrated theoretical framework instead of relying on a single theoretical lens.

2.7 Institutional Perspectives

This section reviews two streams of institutional theory, New Institutional Economic (NIE) and New Institutional Sociology (NIS) to determine how it can help develop the theoretical framework. The aim is to evidence other theoretical perspectives that can be drawn upon to conduct the study and the current state of knowledge. Further to assist in justifying the rationale for an integrated theoretical framework which is informed by impact investing, strategic management, and social entrepreneurship. Institutions define what is acceptable objectively and reject inappropriate or inconsiderate actions based on formal and informal rules and norms (Welter, 2011). Two streams of institutional theory emerge in literature driven from sociology/organizational theory (e.g. DiMaggio and Powell, 1983) and political science/economics (e.g. North, 1990; Shepsle, 1989; Bruton et al., 2010).

Reiterating the objectives of this study as captured in Section 1.3; to critically investigate the distinctiveness of finance first and impact first investors, bank-based versus capital market-based impact funds, and how impact investment fills SME financing void as alternative to traditional enterprise financing. Formal institutional rules via economic and political processes shape the context and setting in which bank-based, capital market-based-funds and investee SMEs operate. Applying the perspectives of both new institutional Economic (NIE) and New Institutional Sociology (NIS) on their exclusively can potentially and to some extent realise the research objectives. However, it fails to assist in revealing the nuances of bank-based, capital market-based funds and investee SMEs in deliberate pursuit of social impact and financial return simultaneously. Besides, integrating institutional theory into the emerging framework drawn from multiple disciplines could complicate the

theoretical approach. Finally, institutional theories reviewed are applicable if SMEs are conceptualised as pure commercial ventures.

Institutional theory can help explain and understand how the context and research setting are shaped in either promoting opportunities or constraining the agency of investors, fund managers and investee SMEs. Table 2.5 below details institutional theoretical perspectives, why they cannot be applied to the current research, which further provide justifications for adopting an integrated theoretical framework for conducting this PhD study.

Table 2. 5 Other theoretical perspectives

New Institutional Economics (NIE)			New Institutional Sociology (NIS)	
Premised on cognitive limitations or bounded rationality of human actors. Focuses on governance structures and formal incentives			Social norms, shared cultures and cognitive scripts drive human behaviour.	
Key Proponents	(Shepsle, 1989; North, 1990, Williamson, 2000)		DiMaggio and Powell (1983)	Scott (2001)
Assumptions	Agency cost theory assume principal-agent experience conflicting interest. Ex-ante contractual incentive can promote alignment of interest and control behaviour of agents (Jensen and Meckling, 1973). Outcome and behaviour-based incentive contracts can be applied (Eisenhart, 1989)	Transaction Cost Economics (TCE) assumes ex-post governance structures and incentives preferable to ex-ante incentives. Contract incompleteness makes, ex-post governance structures appropriate.	Organizations adapt to the institutional environment through homogenization manifesting the concept of isomorphism. Assumes constraining process that exert influence on a unit of population to be similar to other units confronted with same environmental conditions	Categorised formal and informal institutions into regulatory, normative and cognitive groups that influence organizations legitimacy, access to resources and support in society.
Types	Autonomous contracts, complex contracts, long term contracts, intermediate product transaction etc. Inchoate contracts lead to opportunism manifesting in moral hazards, shirking, sub-goal and adverse selection.	Autonomous contracts, complex contracts, long term contracts, intermediate product transactions, final goods market and government procurement transactions	Coercive isomorphism comprises formal and informal pressures. eg. Legal and political environment. Mimetic Isomorphism result from standard responses to uncertainty encouraging imitation or modelling best in class organizations. Normative pressures another source of isomorphic organizational change emerge from professionalization pressures.	Cognitive institutional pillars are informal, taken for granted with rules established among individuals, groups and professionals. Normative institutional pillar defines roles and agency expected of individuals, professionals and organizations. Regulatory institutions govern the interaction of individuals and organizations through formal rules and laws.
Unit of Analysis	Contracts	Transaction cost	Organisations	Organisations
Application to Current Research	Given that in this PhD study, high growth, established and missing middle SMEs are conceptualized as for-profit social enterprises, applying agency cost theory from NIE perspective becomes problematic. It can be helpful where SMEs are conceptualised as pure commercial ventures.	Inappropriate for this study as it can lead to short-termism on the part of bank-based and capital market-based funds together with SME investees in pursuit of social impact and financial return.	The aim of this study is not to evaluate conditions for homogenisation of organisations in a new institutional field like impact investing. Consequently, applying this NIS theoretical perspective can potentially change the objective of this PhD study.	Adopting an approach that seeks to examine conditions under which capital market-based funds and SME investees gain societal and institutional legitimacy may not provide requisite answers to the research questions for this study.

Source: Authors illustration based on institutional theory literature

2.8 Emerging theoretical framework for the study

In this Section 2.8, an emerging theoretical framework developed aims at investigating the distinctiveness of finance first and impact first investors, bank-based versus capital market-based impact funds, and how impact investment fills SME financing void as alternative to traditional enterprise financing from the perspectives of governance, strategy change and impacts. First, linking the concepts of governance and strategy change to understand and explain the influences of impact investment funds on high growth, missing middle and established SMEs in BoP communities is significant. Second, the enterprise funding context has been transformed because of the volume of impact funding, which is distinct from what exists from traditional sources. Three main actors driving the study comprise impact investors, fund managers and investee SMEs (owner-managers) drawing from the multi-disciplinary insights reviewed in the preceding seven sections. These actors are theoretically connected via a cause-effect relationship with the concepts of governance and strategy change in deliberate pursuit of social impact and financial returns as impacts.

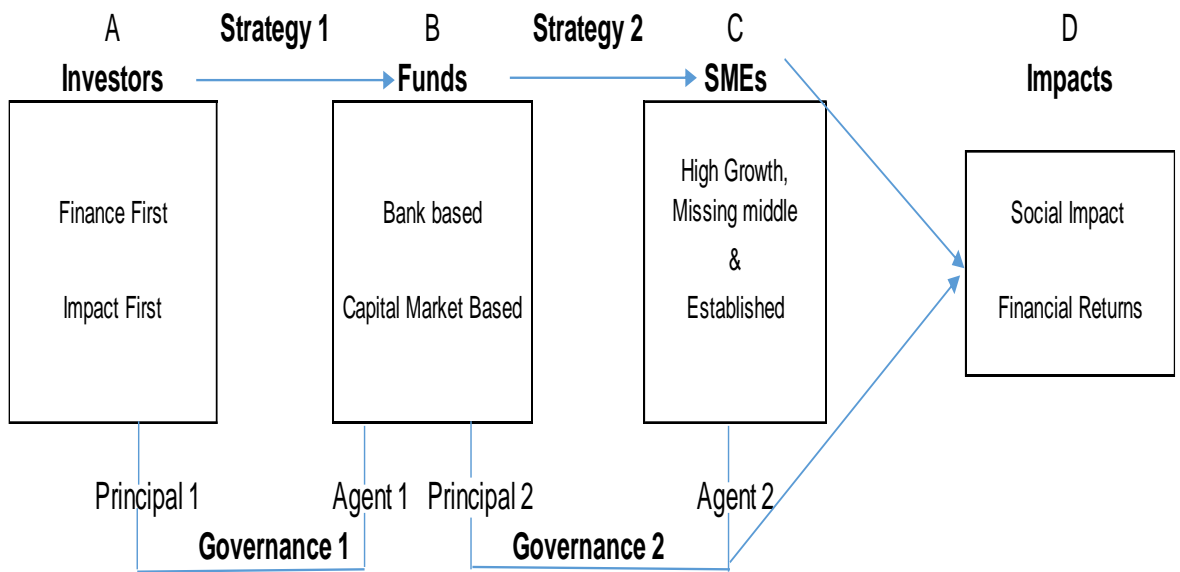
Impact investors, including institutional investors, private investors, asset owners, and foundations, emerge as two categories of finance first and impact first investors. Theoretically, the concepts of governance and strategy change connect these actors for social and commercial transformation in BoP communities. Governance conceptually represents internal mechanisms comprising ownership, control and board representation for deployed by capital market-based fund managers to influence investee SMEs. Bank-based funds adopt control and monitoring as a governance mechanism to influence SMEs to realise the social impact and financial returns simultaneously. These internal governance mechanisms first manifest at the investor-fund manager level and then apply at the fund manager-SME level to realise the stated objectives.

Strategy change involves adaptation or alignment by bank-based, capital market-based fund managers and investee SMEs to ensure external-internal fit for access to impact investor capital. Second, pursuing an impact investment strategy which deliberately realises the social impact and financial returns require strategy change of the existing actors specifically impact investment fund managers and investee SMEs. Social entrepreneurship theory enabled conceptualization of high

growth, missing middle and established SMEs as for-profit social enterprises. Similarly, fund managers and SME owners qualified as social entrepreneurs based on motivation and values in deliberate pursuit of social impacts and financial returns. Finally, social entrepreneurship theory facilitated conceptual clarity on societal problems and how they manifest in BoP communities. Institutional theoretical review instead provides perspectives on the research setting and context on how formal institutions through rules and regulations shape the context. It was not applied in the emerging theoretical framework.

Figure 2.1 depicts the emerging theoretical framework based on the integration of concepts from the impact investing and social entrepreneurship sets of literature. From figure 2.1 below, governance dimensions between investor-fund managers are shown as Principal 1 (finance and impact first investors) and Agent 1 (bank-based and capital market-based investors) represented by Governance 1 (P_1A_1). The second governance dimension at the fund manager-SME investee level shown in figure 2.1 depicts Principal 2 (Bank-based and capital market-based funds) and Agents 2 (SME investees) represented by Governance 2 (P_2A_2). Strategy change is shown as strategy 1 manifesting investor-fund manager strategy alignment from A to B. Secondly, strategy 2 at the fund manager to SME investee level designated to occur from B to C. An interaction effect occurs at the governance and strategy change levels through investee SMEs for realisation of social impact and financial returns as impacts represented by arrows from strategy change and governance to outcome represented by D.

Figure 2. 1 Theoretical Framework



Source: Authors illustration based on literature from diverse disciplines

Impact investors (A) categorised as finance first and impact first channel investments through bank-based and capital market-based funds for investment in SMEs (Höchstädter and Scheck, 2015; Ormiston et al., 2015). In Figure 2.1, the arrows (→) shows relationship between investors (A) and fund managers (B) based on agreed strategy 1, and fund managers (B) and investee SMEs (C) based on strategy 2. Also, the lines show connection between the actors (Investors, fund managers and investee SMEs) from governance perspectives which interact with strategy change to realise the expected impacts (D). Thus, from A to B reflects the relationship between impact investors and fund managers based on agreement established. Besides, it shows that impact investor strategies are expected to be implemented by BB and CMB fund managers in strategy 1. As limited partners, impact investors become principals, and fund managers (general partners) denote agents in creating social impact and financial returns. The nature of governance at the investor-fund manager level is depicted as governance 1 in Figure 2.1. Governance mechanism representing ownership, control and board representation manifest in different forms. Ownership variables comprise the amount of capital invested, equity stake or proportion of debt and equity that impact investors commit to a fund. Control rights arise from the type of investment in a fund as well as covenants in partnership agreements (Scarlata and Alemany, 2010; Gompers and

Lerner, 1996). Control variables consist of approval authority within investment committee, a voice on critical social and financial decisions, and transaction termination or extension authority. Board representation on the fund management company variables includes the appointment of independent directors to the fund management board, attendance and frequency of board meetings, channels of information flow, influence over strategic decisions, and board sub-committee. Governance 1, as already explained, is represented by (P_1A_1) in Figure 2.1. Strategy change at the investor-fund manager level represented by strategy 1, occurs in two ways. Impact investors either invest in funds that pursue a specific strategy that aligns with their investment strategy, thesis or philosophy. Alternatively, impact investors invest in funds that are willing to alter their investment strategies. Similarly, strategy change at the fund manager-SME investee level represented by strategy 2 (B to C) manifests in two ways. Fund managers select SME investees that reflect their investment strategy or are willing to alter their strategies in alignment with the investment criteria of the fund.

Governance 2 (P_2A_2) at the fund manager-SME investee level create a principal-agent relationship in pursuit of social impact and financial returns. Bank-based and capital market-based funds represent principals playing the roles of impact investors. The governance at this level though similar to the investor-fund manager stage has some variation. SMEs investees constitute the ultimate agents of social impact and financial returns. As alluded to in Section 1.2, creation of social impact by SMEs forms the basis for alleviating wicked and intractable societal problems that impact investors are claiming to solve. Governance in terms of ownership, control and board representation manifest at the fund manager-investee level in different ways. Ownership variables depend on financial instruments deployed since equity, a mixture of debt and equity guarantee ownership and control. However, debt only instruments serve as post investments monitoring control variable. Board representation variables include attendance at board meetings, influence over strategic appointments, access to crucial information including management reports, attendance of social networking events (Scarlata and Alemany, 2010; Gompers and Lerner, 2002).

High growth, missing middle and established investee SMEs conceptualized as social enterprises based on resource mobilization ability, activities spanning across sectors and social impact (Mair and Marti, 2006; Peredo and McLean, 2006; Seelos and Mair, 2005) realise the social impact and financial returns as impacts.

In serving BoP communities, high growth, missing middle and established SMEs create social impact (Jones and Turner, 2014). Social impact variables comprise several jobs created, income growth for employees and associated ventures, number of households out of poverty, level and reach of access to products and services in rural areas (Rajan et al., 2014). The developmental impacts of this high growth, missing middle, and established SME positions them as attractive destinations of impact investment funds in developing countries (Jones and Turner, 2014). Financial returns variables include profitability, revenue generation, invested capital repayment, business growth and market size.

Capital market-based funds and investee SMEs in an emerging institutional field of impact investing adapt their strategies for the realisation of social impact and financial returns. Thematic strategies include financial instruments deployment represented by variables such as debt, equity, quasi-equity and guarantees. Multi-sector focus strategy to be investigated using variables such as percentage of capital allocated to different sectors, expected social impact and returns from these sectors, number of sectors, and sectoral distribution of portfolios (Höchstädter and Scheck, 2015; Ormiston et al., 2015). A mixture of finance and impact-first strategy represented by interest rates on loans, the tenor of investment, repayment period, loan moratorium, expected social impact, subsidized returns and potential interest write-off. Strategy change and governance, as explained earlier, do not occur in isolation for the realisation of social impact and financial returns as an outcome. In figure 2.1, the arrows from strategy 2 and governance 2 towards an outcome is an indication of interaction effects. In effect, the governance mechanism interacts with the strategy change of fund managers to influence investee SMEs investees for the realisation of social impact and financial returns in BoP communities.

The role of fund managers and entrepreneurs in the pursuit of multiple objectives is critical in exploring and studying how impact investors accomplish their investment strategies. Fund managers are a catalyst of social entrepreneurship ventures based on an economic system that focuses on impact, transformational goal, development and community (Rajan et al. 2014; Ruebottom, 2013). Entrepreneurs of SME ventures are social entrepreneurs based on the simultaneous pursuit of social and financial goals (Kimbu and Ngoasong, 2016; Ruebottom, 2013; Zahra et al., 2009). Like social entrepreneurs, they play the role of agents of social transformation through the provision of goods and services for BoP or underserved communities (Kimbu and Ngoasong, 2016; Ruebottom, 2013; Zahra et al., 2009).

2.9 Chapter summary and conclusion

This literature review chapter had a three-fold objective, namely, to demonstrate the current state of knowledge, uncover research gaps within the impact investing literature. Besides, to draw on multiple disciplines to justify the research questions concerning the research gaps uncovered and finally to develop a theoretical framework. The emerging theoretical framework seeks to critically investigate the influences of impact investment funds on investee SMEs viewing this influence through the lens of governance, strategy change and impacts (social impact and financial returns). The current state of knowledge within the impact investing discipline shows two main research gaps. First, a research gap exists in understanding the governance mechanism that impact investment funds deploy to ensure investee SMEs realise social impact and financial returns in BoP communities. The second gap uncovered is related to strategy change in that while impact investment strategy is expected to be applied by fund managers and investee SMEs, the process to deliberately realise these objectives is under-researched. In developing the integrated theoretical framework, governance mechanisms of ownership, control and board representation were reviewed and applied to examine the influences of fund managers and investees to deliver on impact investor objectives. Moreover, strategic management literature facilitated understanding why BB and CMB fund managers that hitherto were agents of wealth creation now changed their strategies. However, social entrepreneurship theory is applied to explain the 'how' of strategy change by fund managers and investee SMEs in BoP communities. SME categories of high growth, missing middle and established as agents of development in BoP communities were conceptualised as for-profit social enterprises for effective application of the integrated theoretical framework.

To implement the theoretical framework, require data collection from bank-based and capital market-based fund managers who have financed or invested in specific SME categories. Primary data collection is significant to uncover in-depth knowledge and insights about how governance and strategy change are executed by fund managers and SMEs in the research setting. Secondary sources of data could complement the primary sources. The categories of SMEs are mostly medium-size enterprises with high growth potential and established. Besides

evidence of operating in sectors, geographies and regions which reflect BoP communities.

The emergent theoretical framework, presented as figure 2.1 suggest that a theoretical relationship exists whereby governance mechanism of ownership, control and board representation is applied by impact investors based on agreement with fund managers. Subsequently, fund managers employ the agreed governance mechanism with impact investors for investee SMEs to realise social impact and financial returns. Besides, impact investors expect strategy change by fund managers and investee SMEs in deliberate pursuit of impacts in BoP communities. This theoretical relationship is elaborated in this thesis to address the two research questions set out in section 1.3 of Chapter 1. The emergent framework (figure 2.1) is applied to explain how BB and CMB fund managers govern SMEs and strategy change of these impact investment funds and SMEs when they are no longer agents of private wealth creation but impacts in BoP communities. Ghana provides an exciting context for the application of the framework with similarities to other African countries as recipients of impact investment funds.

Ghana's financial architecture is bank dominated and a growing capital market-based fund manager. A large SME segment of the enterprise architecture are micro and small ventures which reflect similar settings in other countries in Africa. Also, substantial flows of impact investments fund change the enterprise financing landscape from traditional financing, which focuses on private wealth creation. Therefore, an adaptation of the framework might be required in applying to another context where legislation, financial architecture and enterprise categories have variations. The next section reviews the research setting of Ghana for the study focusing on the financial and enterprise architectures as a setting and institutional context representing formal institutions that regulate and promote finance and business venture activities.

CHAPTER 3

The Historical Context of Impact Investing in Ghana

3.1 Introduction

This chapter aims to present the financing and enterprise context of Ghana, which justifies why it is a suitable research setting for investing. Further, impact investing within the research setting of Ghana enables me to situate the study within the country's financial and enterprise architectures, and to highlight relevant features of its historical and institutional context (Welter, 2011). Finally, the research context and setting facilitate the empirical application of the theoretical framework for undertaking the study and answering the research questions. Institutional context refers to sets of formal and informal institutions as "rules of the game" espoused by North (1990). Formal institutions comprise "political and economic-related rules" which create opportunities and challenges for different actors (Welter, 2011, p.172). Alternatively, informal institutions represent norms, values, a culture of a society, and how they interact in accessing resources. This section focuses on formal institutions first at the policy-making level and implementing agencies within Ghana's institutional context. In 1998 the Government of Ghana, African Development Bank (AfDB) and the United Nations Programme and Development (UNDP) established the Social Investment Fund (SIF) which represent an episode before the emergence of the impact investing concept.

In a nutshell, this chapter elaborates on five reasons why Ghana represents an exciting and vital research setting for investigating the role of bank and capital market-based impact funds on SMEs. First, impact investment flows to Ghana over the past decade estimated at \$1.6 billion (GIIN, 2015) and continues to grow. Bank- and capital market-based funds represent intermediaries of impact investments to SMEs. These SMEs categorised as high growth, missing middle and established represent agents of development in alleviating intractable societal problems in the country. Examples of these societal problems include unemployment, poverty, illegal mining, inadequate access to water, improvement in education and health (Aryeetey and Baah-Boateng, 2016).

Second, impact investing has transformed the enterprise financing landscape. As elaborated later in this chapter, traditional bank financing, private

equity, venture capital, microfinance and other non-bank financing have focused on SMEs that demonstrate profitability, revenue generation and financial performance only (Beck; 2013; Abor and Quartey, 2010). However, impact investment capital through a combination of financial instruments such as equity, debt, convertible debt, and grant target enterprises that realise dual objectives of social impact and financial returns (Hochtstadter and Scheck, 2015; Ormiston et al., 2015).

Third, access to impact investment capital provides alternative sources of funds for bank and capital market-based funds and other non-bank financial intermediaries to manage their liquidity and capital adequacy in line with regulatory requirements. Fourth, impact investment represents a game-changer in terms of private-sector led approach to development compared to the previous era of public-sector-led initiatives. Finally, Ghana represents attractive investment destination in Africa with GDP per capita of \$2,046.11 (World Bank, 2018) and foreign direct investment (FDI) inflow of \$3.3 billion by 2017 (UNCTAD, 2018). A portion of the FDI inflows represent impact investments. To demonstrate these shreds of evidence which informs the choice of Ghana as a new research setting, a review of the financial architecture, enterprise architecture representing the setting and institutional context (Welter, 2011) is conducted. Context refers to financial and enterprise architectures, and institutional setting (regulatory and promoting institutions, laws, policies, regulations, codes and standards) which shape the entry and post-entry choices of impact fund management companies, investee SMEs in different sectors (Ngoasong, and Kimbu, 2016; Welter 2011).

The structure of the remaining sections are as follows: Section 3.2 details the nature of development and wicked problems in the context of Ghana. Section 3.3 review reforms within the financial architecture aimed at enhancing enterprise financing landscape. Section 3.4 examines the current financial architecture and enterprise financing. Next section 3.5 reviews the enterprise architecture and enterprise categories to uncover the type of SMEs that impact investors are targeting for dual goals. Section 3.6 reviews impact investing and financial architecture to understand where impact investments are situated. Section 3.7 details impact investing and enterprise architecture in providing some mapping of impact funds and SMEs within the enterprise architecture. Finally, section 3.8 provide chapter summary and conclusions.

3.2 Addressing developmental societal problems: Government efforts

Development concerns income improvement, access to educational and health opportunities, reduced income inequality, marginal chronic hunger, enhanced social-wellbeing and global poverty reduction for the majority of the population (Vazquez and Sumner, 2013; Sachs 2014). "Development initiatives with the ultimate goal of poverty alleviation" underpin the objectives of impact investors (Jones and Turner, 2014, p. 299). Along a similar notion of reasoning, the concept of development can be described as social and economic impact. Thus, in search of development, economic and social impacts realised alleviate societal problems. Financing developmental initiatives can, therefore, alleviate societal problems based on valid policies. Development can be inferred as a critical assumption which underlay the objectives of impact investors. Promoters of impact investors claim that to alleviate the wicked societal problems confronting societies, investments that seek social impact and financial returns become indispensable. Financial returns will ensure sustainability and improved funding of development-led projects will ultimately reduce the myriad of societal problems that have become intractable.

Theoretically, economic development that encapsulates social impact and financial returns lead to a decline in wicked societal problems. Unemployment, inadequate housing, child mortality, illegal mining, poor access to education, malnutrition, poor access to water and sanitation difficulties constitute wicked societal problems in the context of Ghana (World Bank, 2015). As Mlachila et al., (2015, p. 14) surmise that "better living standards, lower poverty, and reduced inequality" constitute key development policy goals which ultimately reflect social impact in societies. Some of the improvements have been recorded in some societal problems, while remarkable numbers deteriorated over these periods. Unfortunately, the financing of projects and initiatives to curb some of the worsening societal problems were donor-dependent or external (World Bank, 2015). The consequences of external-finance dependency created challenges of sustainability of these solutions to societal problems in Ghana. Table 3.1 summarises key examples of societal problems that impact investors are seeking solution for in Ghana.

Table 3. 1 Summary of key societal problems in Ghana

Examples of societal problems	Description
Agriculture	The negative consequences of Economic Recovery Program I (1983-1986) and II (1987-1990) and trade liberalisation policies (Aryeetey and Fenny, 2017) affected the performance of the sector. Trade liberalisation policies also affected manufacturing thus, worsening existing unemployment situation among the youth.
Population growth	World Bank (2015) suggests that rapid urbanization has occurred, resulting in 3.5 times increase in urban population from 1984-2014 in Accra. This rapid urbanization generated rapid economic growth averaging 5.7% from 1984-2013. However, the expected benefits of population growth have eluded the country due to education-related issues.
Health	Ghana still lags in terms of health-related Millennium Development Goals. Saleh (2013) finds that communicable diseases are prevalent and non-communicable diseases are increasing. Three significant causes of death as estimated by the World Health Organisation as at 2008 comprised communicable disease (53%), Cardiovascular (18%) and cancer (6%) in Ghana (Saleh, 2013).
Education	Baah-Boateng and Baffour-Awuah, (2015) finds that Ghana's educational system has produced excess graduates in humanities and shortages of skills for industry, mining, oil and gas and other professional skills. There is lack of engineers for the oil and gas industry, professionals for medicine and health (Aryeetey and Baah-Boateng, 2006).
Energy	Kumi (2017, p 1) estimates that energy crisis over the past decade (2006-2016) resulted in \$2.1 million daily production loss. Many of the installed capacities over the period were both broken down or under maintenance and not available to generate power (Kumi, 2017). High energy cost and unavailability, a general increase in utility prices affected industry and manufacturing (Aryeetey and Fenny, 2017)

Source: Authors illustration from review of academic publication and reports.

These societal problems depicted in table 3.1 have worsened mainly due to under- investment in the sectors. Impact investment through bank and capital market-based funds can potentially alleviate these intractable societal problems through private sector-led approach. Such private sector-led approach through impact investment create diverse entrepreneurial financing opportunities for high growth, missing middle and established SMEs thereby reducing the SME financing constraints which further justify research object set out in section 1.3. Examples of how impact investment funds are investing these sectors are detailed in section 3.7.

The next subsection review efforts mainly Government-led in finding multi-faceted solutions to these intractable problems.

3.2.1 Government efforts to curb societal problems

Efforts at curbing these societal problems summarised in table 3.1 over the past three decades have been public-sector led through interventions in the financial, enterprise architectures and direct projects. State-owned banks were established to invest in specific sectors, including agriculture, rural communities, manufacturing to promote economic growth and development. Agricultural Development Bank (ADB) and the National Investment Bank (NIB) were established within the financial architecture to spearhead industrialisation in specific sectors to reduce intractable societal problems. Government efforts to promote entrepreneurial financing opportunities for SMEs led to policies for lower-tier financial institutions. Lower tier financial institutions such as Non-bank financial institutions (NBFIs), Rural and Community Banks and Microfinance institutions were also established through the Bank of Ghana to support enterprises in rural areas.

Educational challenges in terms of skills and capabilities efforts include intervention such as the establishment of the Ghana Education Trust Fund (GET Fund), Skills Development Fund (SDF) and private sector approaches. The GET Fund was set up by an Act of Parliament to develop infrastructure in public sector educational institutions in Ghana. Funding sources were from budgetary allocation and taxes. Opportunities for private sector participation in the education sector were also created. The skills shortage in the oil and gas sector are being addressed through investment from some of the MNCs in the sector via training and capacity development. Also attempts to reduce the health sector problems are quite encouraging from the Government. To improve healthcare delivery in Ghana, incentives such as housing, additional allowances and career opportunities were initiated for recruitment and retention of health professionals (Saleh, 2013). In the 2019 budget, the Government has allocated funds for the completion of four district hospitals and construction of seven more. A 650-bed capacity University of Ghana Medical Centre II would be completed. Also, some enterprises within the enterprise architecture have corporate social responsibility activities to support the government in mitigating the deteriorating societal problems in health, education, and other sectors. Some companies have contributed funding to build infrastructure for some

of the health centres across the country. Subsection 3.4.2 provide an additional public sector-led approach to solve these intractable problems.

To conclude, attempts by the Government to reduce these intractable problems include the establishment of financial institutions for relatively cheaper loans to SMEs. Direct investments in social sector projects and budgetary allocation through state institutions and agencies. Donor-support via bilateral and multi-lateral agency projects also aimed at realising economic development and reducing intractable societal problems. However, Government efforts have failed to yield the expected results through the financial and enterprise architectures because of over-politicisation and undue influence in most of these financial institutions. The next section reviews the historical reforms within the institutional context before the emergence of impact investing concept.

3.3 Financial architecture reforms and Enterprise financing landscape

This section reviews Ghana's institutional context to uncover previous attempts to develop the financial architecture for diverse funding to ensure dynamism within the enterprise financing landscape. Investments that integrate social impact and financial returns within the institutional context dates back to the 1990s with the establishment of the Social Investment Fund. However, the term impact investing emerged in Ghana from 2012 under the auspices of the Venture Capital Trust Fund (VCTF). Financial sector reforms within a broader framework of macro-economic reforms enable understanding and background to impact investing through intermediaries within the financial system. Financial sector improvement and development catalyse economic development and growth. Access to different sources and types of capital enhances the enterprise financing landscape to realise expected development and growth. Within the institutional context of macro-economic, technological and political reviews, the concept of impact investing with the objective of deliberate social impact and financial returns are examined in this review.

3.3.1 Macro-economic reforms and impact investing

The macroeconomic environment of Ghana transitioned different phases of growth and decline over the past four decades. This subsection section offers an overview of Ghana's macroeconomic environment along categorised as four stylised facts of

4Rs: Reforms decades- 1980-2000; Restoration and Growth- 2000-2010; Retrogression- 2010-2016; Revival- 2017 till date. These timelines represent different waves of macroeconomic development characterised by reforms and policies over the past four decades. The Bretton Woods Institutions comprising the International Monetary Fund (IMF) and the World Bank led the reforms. These reforms comprised the Economic Recovery Program (ERP) in 1983 and related Financial Sector Adjustment Program (FINSAP) by 1986 to correct structural imbalances (Bawumia and Halland, 2017). Some of the significant economic reforms comprised trade liberalisation, financial deregulation and privatisation of state-owned enterprises. Under the ERP and SAP trade controls were removed, price controls eliminated, and flexible foreign exchange regime was initiated driven by market mechanism (Aryeetey and Ahene, 2005). The World Bank implemented two credits, namely Financial Sector Adjustment Credit (FINSAC I and II).

FINSAC II had the objective of consolidating previous gains under FINSAC I. and introduction of other reforms (Mensah, 2017). Capital market policies under FINSAC II also enabled the establishment of the Ghana Stock Exchange (GSE) by 1990 for companies to access long-term capital. Banks- based lower-tier financial institutions, including NBFIs, RCB's and MFI's were established. FINSAC II resulted in the establishment of a Venture capital Trust Fund (VCTF) to provide venture funding to early-stage and high growth enterprises. Social investment fund (SIF) was established by the Government in 1998 to support SMEs and social sector projects. The concept of Impact investing emerged within the economic restoration period of 2001-2010. In Ghana, impact investing was spearheaded by the VCTF to promote investments into enterprises that seek to realise the social impact and financial returns. Figure 3.2 illustrate episodes of reforms aimed at stimulating growth, improving the financial architecture and change within the enterprise financing landscape before and after the emergence of the impact investing concept.

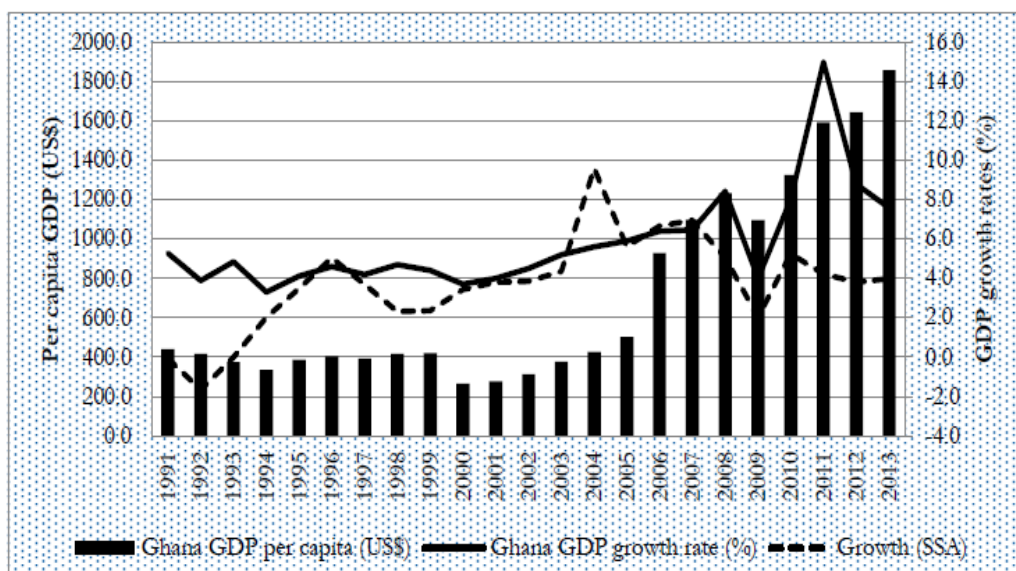
Figure 3. 1 Summary of Ghana's macroeconomic environment

1980-2000 Reforms	<p>Economic Recovery Program (ERP) in 1983 and related Financial Sector Adjustment Program (FINSAP) by 1986 to correct structural imbalances (Bawumia and Holland, 2017). Under the ERP and Structural Adjustment Program (SAP) trade controls were removed, price controls eliminated, and flexible foreign exchange regime was initiated driven by market mechanism (Aryeetey and Ahene, 2005)</p> <ul style="list-style-type: none"> Ghana experienced high inflation and unsustainable balance of payment (BOP) deficits within the period 1987-1990 under ERP II similar to other Sub Saharan African (SSA) countries leading to extreme poverty (Aryeetey and Fenny, 2017). O'Connell and Ndulu (2010) found that domestic macroeconomic policies, deteriorating terms of trade and high debt burden contributed to economic difficulties within and post ERP II in most SSA countries and Ghana. The World Bank implemented two credits namely Financial Sector Adjustment Credit (FINSAC I and II). FINSAC I (1988-1991) aimed at improving the soundness of the banking system. FINSAC II had the objective of consolidating FINSAC I and introduction of other reforms (Mensah, 2017)
2001-2010 Restoration	<p>Expansionary fiscal policy took hold of the government in the run-up to Dec 2000 election deteriorating macroeconomic indicators (Bawumia and Holland, 2017). An estimated inflow of \$4.2 billion from the World Bank, Donor Agencies, Multilateral and Bilateral Institutions came to Ghana due to the HIPC initiative (Bawumia and Holland, 2017) from 2001-2005.</p> <ul style="list-style-type: none"> The Ghana Poverty Reduction Strategy I (2002-2005) and II (2006-2009) were initiated. GPRS I aimed at economic restructuring under the HIPC initiative of debt forgiveness. GPRS II sought to address macroeconomic stability, human capital development, and private sector-led growth. Major indicators improved including exchange rate stability, inflation decline, and private sector access to credit, BOP improvement and four months international reserve. The per capita GDP increased to USD\$ 930 from USD \$502 in 2005 and grew further to USD \$1,099 by end of 2007 shifting Ghana into a lower-middle income country (Aryeetey and Fenny, 2017).
2011-2016 Retrogression	<p>Pre-2010 average growth of 6% upsurge to 14% in 2011 with the commencement of crude oil production in commercial quantities and declined to 8% by 2013. Different corruption scandals characterised the government activities.</p> <ul style="list-style-type: none"> Ghana's economy experienced challenges since the peak in GDP growth of 14% in 2011. Energy crisis, rising external debt, low output and unfavourable world market prices, rising utility prices culminated in decline in economic growth over the period 2012-2016. In 2012, fiscal monetary expansion during the run-up to Dec 2012 election resulted in budget deficit of GHS8.7 billion representing 11.6% of GDP (Bawumia and Holland, 2017). A Single Spine Policy of for public sector workers salary alignment led to growth in Government expenditure during 2011-2014 of 94% mainly wages and interest payments. Government resorted to IMF bail-out by 2014 for three years ushering in a period of austerity worsening an existing societal problems, enterprise financing constraints and liquidity challenges of bank-based and capital market based fund managers.
2017 to Date Revival	<p>Policies initiated by the current Government reflected in growth in GDP to 9.3% in the last quarter of 2017. Positive economic indicators emerged based on effective fiscal management in 2017. Real GDP growth for 2017 is estimated at 7.9% compared to 3.7% for 2016.</p> <ul style="list-style-type: none"> Current enterprise and industrial policy under the 10 point agenda to stimulate economic growth and development indicate signs of revival Inflation which experienced decline over past twelve months reduced from 15.4% in December 2016 to 11.6% in October 2017 with further decline anticipated at the end of the year 2017.

Source: Author's illustration from literature

Energy challenges, rising external debt, low output and unfavourable world market prices, rising utility prices culminated in decline in economic growth over the period 2012-2016. Figure 3.2 evidence Ghana's GDP per capita, percentage of GDP growth rate and comparison with Sub-Sahara Africa.

Figure 3. 2 Ghana's GDP per capita, % growth and SSA 1991-2011



Source: Aryeetey and Baah-Boateng (2016, p.3)

Ghana's economy in 2018 withstood external challenges resulting in weak local currency against the US dollar, government deficit of 3.9 per cent of GDP, external trade balance surplus of \$1.78 billion (BOG,2019). Impact investment flows through bank-based, and capital market-based fund managers have improved the enterprise financing landscape with different categories of financial intermediaries. Further review of impact investing occurs under the financial architecture later in the chapter.

3.3.2 Technology context and financial inclusion

Over the past three decades, technology penetration and acceptance has been on the increase in Ghana. Bank-based and capital market-based funds require effective communication in delivering financial solutions to SMEs. Such solutions require reliance on technology and telecommunication companies. Telecommunication companies consist of MTN Ghana, Vodafone Ghana, AirtelTigo, Globacom and Expresso. AirtelTigo merged two years ago based for increased market penetration opportunities. World Bank (2018) development indicators reveal that mobile phone

subscription in Ghana increased from 17.4 m in 2010 to 36.7 subscribers by 2017, indicating multiple subscriptions per person. Similarly, mobile cellular subscription per 100 people rose from 71.1 in 2010 to 127.5 by 2017 (WDI, 2018). Major players in the industry currently operate 3G/4G technology and the regulatory institution expects that all the companies will at least migrate to 4G technology.

A significant benefit of improved telecommunication and mobile phone penetration is access to financial services and financial inclusion, which impact investors are seeking to promote. Attempts to improve financial inclusion through different financial institutions such as Rural Commercial Banks (RCB) NBFIs and Microfinance Institutions (MFI's) yielded some positive results, yet many were unbanked. This adds to the reason why Ghana represent an important investment destination and impact investment creating pluralistic entrepreneurial financing through financial inclusion. Impact investor expectation of social impact and financial returns can be realised through intermediaries that are scale in promoting financial inclusion in BoP communities. Mobile money financial services have surged in promoting financial inclusion. Many bank-based institutions have either developed or collaborated with telecommunication companies to promote financial inclusion. MTN, Vodafone and AirtelTigo have launched and provide mobile financial services to individuals and SMEs in Ghana for the past five years. Anecdotal evidence shows that MTN holds an estimated 90% of the mobile money market share in Ghana with the difference split between Vodafone and AirtelTigo. Financial institutions are promoting financial inclusion through digitisation services, including mobile money wallet, online services, and automated self-service branch network across the country. The growth in broadband access has facilitated digital services in the country.

The World Bank (2017) reports that ICT contributed 10.6% to Ghana's GDP in 2016, rising from 2.8% in 2006. Moreover, the average growth of 30% per annum since 2009-2014 in ICT driven by mobile voice telephony. Government strategy of universal access in promoting digitisation by way of infrastructure include fibre optic services to 200 communities, and regional centres are fostering growth. Private sector players such as MTN and Ericsson Rural Telephony Project in rural areas (World Bank, 2017). The ICT context is an enabler of economic development and facilitated communication between investors, fund managers and investee SMEs managers ubiquitously. In summary, the technology context has promoted financial inclusion in BoP communities in Ghana through mobile financial services.

3.3.3 Democratic Political Governance and Investment attractiveness

The nature of political governance either attract impact investment capital and FDI or creates an unfavourable environment for financial institutions and enterprise financing. Political institutions therefore shape and influence the financial and enterprise architectures in attracting foreign direct investment (FDI) which include impact investor capital. Two major political parties won election since the 1992 democratic dispensation over the period, namely the National Democratic Congress (NDC) and the New Patriotic Party. The NDC espouses social-democratic political ideology while the NPP holds a capitalist ideological orientation. Under the dispensation of constitutional rule, NDC has governed the country within the periods 1993-1996 and 1997-2000 (President Jerry Rawlings), 2009-2016 (President John Atta Mills/ President John Mahama). Social democratic policies are expected to lead to attracting capital that will alleviate societal problems, including poverty, unemployment, improved education and health as clarified earlier in the chapter.

Within the intervening period of 2001-2004 and 2005-2008 (President John Kufuor) and 2017 to date (President Nana Akufo-Addo) of the NPP. These different democratic political regimes made efforts through government agencies to attract foreign direct investment, including impact investment for economic development. Evidence of political stability further justify the emerging private sector-led approach to development through impact investor capital, signalling strategy change among finance-first and impact-first investors particularly Development Finance Institutions (DFIs).

In summary, Ghana's financial architecture reforms enhanced the enterprise financing landscape through institutional macro-economic reforms within the period 1980's -2000 and 2001-2010. These reforms aimed at stability and improvement in the macro-economic context, financial architecture and growth of different financing opportunities for enterprises. Improvement in the technology context through telecommunication companies and mobile financial services facilitated financial inclusion in the BoP communities, an essential tool for economic development. Democratic political governance promoted stability within the country catalysing growth of different typologies of financial institutions within the financial architecture and investment attractiveness. However, societal problems were exacerbated due to the politicisation of economic and social initiatives. Section 3.4 presents a review

of the prevailing financial architecture of Ghana to show the changing landscape of enterprise financing and explain where impact funds are situated.

3.4 Current Financial Architecture and Enterprise Financing landscape

This section reviews the current financial architecture of Ghana with details about the four main segments aimed at providing varied enterprise financing opportunities within the financial system. Moreover, a review of Government initiated funds aimed at reducing the SME financing constraints and societal problems discussed in Section 3.2. It then dovetails into policy-making institutions within the financial architecture that shape and affects financial development and enterprise financing landscape. Further, a diagram is presented to show the current disposition of Ghana's financial architecture and where impact investment funds are situated within the financial architecture.

3.4.1 Bank-based and Capital Market-Based Segments of Financial Architecture

This subsection presents the current financial architecture of Ghana within the last decade concerning how it has changed the enterprise financing landscape. The current financial architecture of Ghana comprises four primary categorisation or segments, namely bank-based, capital market-based, pensions industry and insurance sector. Ministry of Finance and Economic Planning (MOFEP) retains supervisory authority over these four segments of the financial architecture. Different segments of Ghana's financial architecture deliver financial solutions to individuals, firms, Government and Multinational Corporations (MNCs). Such financial intermediation through different channels facilitates the growth of enterprises and consequently, economic growth. This section details an overview of the four segments of Ghana's financial architecture.

The Bank-based segment under the supervision of the Bank of Ghana (BOG) comprises Deposit Money Banks (DMBs), Non-Bank Financial Institutions (NBFIs), Rural and Community Banks (RCBs) and Microfinance Institutions (MFI's). Mensah, (2017) observed that Ghana's banking system has undergone different reforms over the past three decades promoted by the World Bank. Some of these reforms include FINSAC I and II (1986-1997), Non-Bank Financial Institution (NBFi) reforms and Financial Sector Strategic Plan I and II (2003-2016). The four categories of the bank-

based segment of Ghana's financial architecture are expected to meet the enterprise financing needs of different enterprises within the enterprise architecture. Also, to promote financial inclusion of the un-banked and underserved BoP communities, NBFIs, RCBs and MFIs were established. Finally, to curb financing constraints of SMEs through capital access from lower-tier institutions such as NBFIs, RCBs and MFIs. Licensing and minimum capital requirement distinguishes the typology of financial institutions under the supervision of the central bank. BOG is empowered by different legal Acts to regulate and supervise the bank-based segment of the financial system in Ghana.

Ghana's banking sector experienced transformation over the past two years, spearheaded by the Central Bank. Non-performing Loans (NPL) of the banking industry deteriorated reaching GHS8.3 billion representing 27.2% by October 2017 (BOG, 2018). NPL ratio in the past two years was comparable to the 1980s, which led to the FINSAP I reforms by the World Bank. Therefore, in line with the Specialized Deposit-taking Institutions Act, 2016 (Act 930), the Bank of Ghana commenced a review of the performance of banks. The BOG increased the minimum capital requirements from GHS120 million to GHS400 million by 2018. The number of Universal banks operating in the country at the end of the recapitalisation exercise nose-dived from 34 to 23 banks (BOG, 2019). Licenses of two banks were revoked, and six banks were merged to form Consolidated Bank, Ghana (CBG). Moreover, the BOG, together with the Ministry of Finance established the Ghana Amalgamated Trust Ltd (GAT), an asset holding company or asset recovery company to manage the distressed debt of the merged banks.

The bank-based segment consisting of these four significant intermediaries with different capital requirements transformed the enterprise financing landscape for the unmet needs of different categories of SMEs. The expectation was that policies which led to the transformation of the financial architecture would have enabled growth in access to capital by SMEs that are financially constrained. On the contrary, SME financing constraints has become pervasive within the last two decades (Quartey et al., 2017). Impact investment funds channelled through these four intermediaries within the bank-based segment-first improved the liquidity of these intermediaries and secondly enhanced lending to SMEs to alleviate societal problems. Examples and role of impact investing in transforming the financial architecture and enterprise financing are detailed in the latter sections of the chapter.

The Capital market constitutes the second segment of the financial architecture, providing opportunities for sourcing long term capital for enterprises. The Securities and Exchanges Commission (SEC) regulates the capital market in Ghana (SEC, 2016). Ghana's Securities and Exchange Commission pointed out that "The Securities and Exchange Commission (hereinafter referred to as "SEC") is the statutory body mandated by the Securities Industry Act 2016 (Act 929) to protect investors and the interest of the general investing public. Ghana's capital market under the supervision of the SEC, is governed and regulated by laws and regulations. The securities industry is governed by the Securities Industry Act, 2016 (Act 929) and its Regulations. These laws and regulations consist of Securities Industry Act, 2016, (Act 929); Foreign Exchange Act 2006 (Act 723); SEC Regulations 2003 (LI 1728); Unit Trust and Mutual Fund Regulations (LI 1695). Other mechanisms of regulating the capital market by SEC consists of circulars, guidelines, directives, codes, and drafts (SEC, 2019).

A significant feature of the capital market is the Ghana Stock Exchange (GSE), for listing and trading of shares of listed companies. Besides the GSE, the capital market has participants including brokers and dealers, investment advisors, fund managers, collective investment schemes, registrars and unit trust, custodians and primary and representatives (Mensah, 2017). The GSE enable medium to large enterprises within the enterprise architecture to access long term capital through the issuance of shares/stocks and bonds for investment. In 2016, the GSE CI outturn was a negative 15.53% due to macroeconomic challenges. However, in 2017, the GSE CI recorded a positive return of 52.73 % (SEC, 2018). The number of listed companies on the GSE main index are 36 and four companies listed on the Ghana Alternative Market (GAX). The GAX is aimed at attracting SMEs with governance structures, effective strategies and sound operational capabilities seeking to expand but require long term capital. These enterprises can then issue shares/stocks to the public and subsequently trade on the GAX. As stated above, only 4 enterprises are listed on the GAX. Table 3.2 show participants on the capital market, 2017.

Table 3. 2 Participants in the Capital Market, 2017

	2015	2016	2017
Stock Exchange	1	1	1
Fund Managers	126	145	155
Custodians	18	17	18
Trustees	5	6	6
Mutual Funds	29	34	34
Unit Trusts	17	19	19
Broker-Dealers	23	23	23
Primary Dealers	16	12	17
Dealer Representatives	91	81	87
Investment Advisors	4	2	3

Source: SEC Annual Reports, 2016-2017

Fund manager sub-segment of the capital market industry is experiencing colossal uptake over the last decade. Growth in the pension funds industry has positively impacted the fund management sub-segment of the capital market industry in Ghana. Private equity funds, venture capital funds and impact investment funds consist of key stakeholders in the fund manager sub-segment of the capital market-based segment of the financial architecture.

Fund managers represent companies managing retail and institutional fund portfolios, pension funds and collective investment schemes (CIS). The CIS represents mutual funds and unit trust (SEC, 2017). Table 3.3 shows assets under management by fund managers.

Table 3. 3 Trend of Assets under Management (AUM), 2017

AUM	2015 (GHS)	%	2016 (GHS)	%	2017 (GHS)
Pension Funds	2,567,942,044.51	72%	4,423,178,350.48	63%	7,207,863,213.17
CIS	727,626,915.89	56%	1,131,705,585.14	91%	2,167,066,358.09
Other Funds	10,376,193,488.23	41%	14,603,994,850.62	49%	21,687,189,377.69
Total	13,671,762,448.63	47%	20,158,878,786.24	54%	31,062,118,948.95

Source: Authors illustration from the SEC Annual reports, 2016 and 2017

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Fund managers are expected to allocate capital to ventures and enterprises that require funding over a more extended period through equity and debt financial instruments. Many of the pension fund managers due to fiduciary duties allocate funding to enterprises listed on the GSE, Government securities and investment instruments in bank-based institutions. Though such sources of long-term funds are transforming the enterprise financing landscape, SME financing constraints persist. Apart from the impact investment fund managers who have committed to channelling funds to investee SMEs.

Pensions industry represent the third sub-segment of Ghana's financial system and a critical source of long-term investment capital. Pensions serve as sources of long-term funding for businesses and Governments globally and Ghana. Pensions industry within the past decade went through reforms. New Pensions Industry Act led to the establishment of the National Pensions Regulatory Authority (NPRA) regulate the pensions industry. Hitherto the Pension funds within the industry in Ghana were administered and managed by the Social Security and National Insurance Trust (SSNIT), a compulsory scheme for all workers, either private or public. The managers of the trust were criticised for poor investments decision and political interference in the resource allocation choices toward non-performing projects. A white paper presented to the President of Ghana in 2009 under the leadership of Mr T. A. Bediako recommended what is known as "Three-Tier Pension Scheme which entails two mandatory schemes and a voluntary scheme. Besides regulating the Pensions Industry, the Act empowers NPRA to supervise affiliated institutions that manage pension funds in Ghana.

The growth of pension funds over the past five years are exhibited in Table 3.4 below. These funds consist of the mandatory pension contribution to SSNIT, private pension funds and funds accrued in the Temporary Pension Fund Accounts (TPFA).

Table 3. 4 GDP Analysis of Tier 3 Pension Funds Growth, Dec 2012- Dec 2017

Year	SSNIT	Trustees AUM	TPFA Funds	Total	% of GDP
2012	4,280,596,000.00	48,237,965.69	756,873,159.69	5,085,707,125.18	6.75
2013	5,564,784,000.00	429,110,869.05	914,132,017.00	6,908,026,886.05	7.39
2014	7,427,318,000.00	1,116,492,197.00	1,465,015,857.00	10,008,826,054.00	8.83
2015	8,810,075,000.00	2,358,555,107.12	2,313,553,357.00	13,482,183,464.12	9.84
2016	8,888,601,000.00	4,122,492,021.68	2,670,454,240.00	15,681,547,261.68	9.37
2017	9,771,140,000.00	7,699,442,720.40	3,323,735,749.00	20,794,318,469.40	10.10

Source: Authors illustration from NPRA data

Table 3.5 also shows top 5 pension fund trustees for Tier 2 and 3 schemes.

Table 3. 5 Top 5 pension Fund Trustees, 2017

No.	Corporate Name	Market share	AUM	Ranking
1	Enterprise Trustees Ltd	39.90	2,808,610,608.11	1
2	Petra Trust Ltd	13.86	975,525,950.94	2
3	Axis Pension Trust Ltd	10.75	756,825,459.52	3
4	United Pension Trustees Ltd	8.52	599,900,526.08	4
5	Hedge Pension Trust Ltd	5.33	375,444,077.50	5

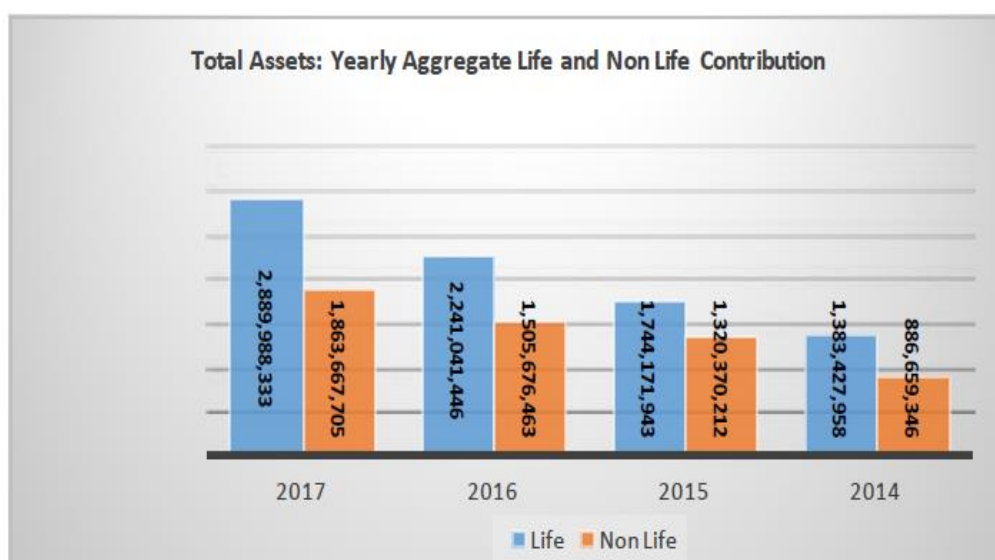
Source: Authors illustration from NPRA, 2019

Private pension fund scheme which has a total of 34 trustees, had total assets under management of GHS 7.6 billion. Out of the 34 private pension fund trustees, the top 5 manages 78.37% of the assets under management by 2017. Table 3.5 beside provide details of the top 5 pension fund trustees and their respective ranking. Restrictive investment parameters of the NPRA influenced the capital allocation policies of pension fund managers under the Tier-2 pension scheme. Pensions serve as a source of long-term capital for SMEs and other large enterprises. The current investment policies of fund managers favour allocation to companies listed on the GSE, Government Securities and investment instruments in bank-based intermediaries. This issue will be explicated in the empirical analysis.

Insurance industry constitutes the fourth and final segment of the financial system in Ghana. The insurance sub-segment of the financial system has been a

significant source of long-term funding to businesses and government in the past. National Insurance Commission (NIC) has supervisory and regulatory authority over the insurance industry. The Insurance Industry is governed by Insurance Act 2006, ACT 724 (NIC, 2019). Two categories of the insurance industry can be observed namely Life and Non- Life (General Insurance). Reforms by the NIC resulted in different legal entity managing the life and non-life categories of insurance in Ghana.

Figure 3.2 Total assets of Life and Non-life Insurance



Source: NIC, Annual Report (2017, p.30)

National Insurance Commission 2017 report shows that life insurance companies invested their funds as follows: deposits at licenced banks (42%), Government securities (21%) and Equities (14%). Non-Life insurance companies invested the majority of their premiums in the asset class term deposits with licensed banks. Term deposit investments with licensed banks rose from GHS348 million, 2016 to GHS460 million by 2017 (NIC, 2017). Investment in Government securities went up from GHS 144 million, 2016 to GHS225 million by 2017 (NIC, 2017). An opportunity exists for insurance companies to invest some of the premiums in an impact investment fund to support heterogeneous categories of SMEs in Ghana. Also, it shows the knowledge gap among research institutions, funding sources and policymaking institutions to promote economic development in the country.

3.4.2 Government funds, SME financing constraints and Societal Problems

This subsection 3.4.2 present Government funds established to reduce the SME financing constraints, improve entrepreneurial financing opportunities (Cumming et al., 2019) and ultimately salvaging the intractable societal problems presented in Section 3.2. SMEs represent an essential source of job creation and catalyse economic growth. However, different categories of SMEs constituting agents of social impact and financial returns encounter enormous financial challenges due to perceived risk as well as the unfavourable macro-economic environment. SMEs contribute 70 per cent to Ghana's Gross Domestic Product (GDP), generate 85 per cent of manufacturing jobs and account for 90.5 per cent of enterprise establishment (Abor and Quartey, 2010; GSS IBES, 2016). Significant constraints to SMEs as agents of social impact and financial returns can be described as access to finance or capital for investments. Exacerbating the challenges of access to finance is the unstable and highly unfavourable macroeconomic conditions reviewed, which ultimately worsen societal problems that enterprises seek to alleviate.

Impact investments into SMEs described as a panacea to the financing challenges of SMEs given the scarcity of private capital (Hinton and Penemetsa, 2015) to alleviate societal problems in Ghana. Before impact investment capital, Government funds were established to ameliorate the enterprise financing challenges of SMEs to reduce societal problems. Besides, entrepreneurial financing options including venture capital, microfinance, trade financing, trade guarantee institutions (Cumming et al., 2019; Kaplan and Stromberg, 2009) emerged to provide pluralistic funding sources to different categories of SMEs. This is because bank-based and capital market segment intermediaries tend to be agents of private wealth creation. Within the four segments of Ghana's financial system, Government funds were initiated over the period to transform the lives of people in BoP communities through investment and financing of SMEs. Some these funds include the Venture Capital Trust Fund (VCTF), Ghana EXIM (formerly EDAIF), Business Sector Advocacy Challenge Fund (BUSAC), Social Investment Fund (SIF), Skills Development Fund (SDF) and Microfinance and Small Scale Loan Centre (MASLOC). The next four paragraphs provide a review of some these funds as alternatives for enterprise financing and how these financing institutions provide sources of entrepreneurial financing options (Cumming et al., 2019; Kaplan and Stromberg, 2009) to SMEs in Ghana.

Government, development partners and NGOs acknowledged the role and contribution of SMEs to Ghana's economy. SME contribution towards employment, social cohesion, taxes and ultimately, economic growth prompted Government agencies to catalyse their growth through alternative funding sources. While many Government funding initiatives emerged over the past two decades, table 3.6 provide details of some Government initiatives in creating alternative SME funding and ameliorate societal problems.

Table 3. 6 Government-initiated funds for SMEs

Name of institution	Purpose	Funding Sources	Target Market
Venture Capital Trust Fund	Support the growth of venture capital industry Act as a fund-of funds for emerging venture capital firms	Government of Ghana	Start-up, early stage and high-growth SMEs.
Ghana EXIM	Promote industrialisation through funding to export-oriented and other large-scale enterprises. Assist enterprises to secure machinery, equipment for operations.	Government of Ghana -Multilateral borrowing -Bilateral trade financing arrangement	-SMEs -Large businesses -Corporates -Multinational Corporations -State owned Enterprises
MASLOC	Support and loan facilities for micro, small and medium-size enterprises	-Government of Ghana -Bilateral institutions -Development Agencies	Micro, Small and Medium-Size enterprises -Self-employed informal sector workers
BUSAC	Promotion of private sector advocacy to achieve an enabling environment	DANIDA, USAID, and EU	Business support groups, and associations, private sector organizations and farm-based organizations
Skills Development Fund (SDF)	Government initiative to improve the capacity of SMEs in different sector. A challenge fund to improve skills of employees in private-sector organisations, and technology transfer	Government of Ghana, the World Bank and DANIDA	SMEs and informal sector economy

Source: Authors illustration from websites of these institutions

The Venture Capital Trust fund (VCTF) was established through an act of parliament, Act 680 in 2004 to promote long term venture capital funding for SME's in Ghana. The Trust fund commenced operations on January 2006. The VCTF is currently a fund of funds providing funding to locally established venture funds to finance SME's in specific critical sectors of the economy. The principal objective for

the VCTF "..... is to provide financial resources for the development and promotion of venture capital financing for SMEs in priority sectors of the economy as shall be specified from time to time". In pursuant of this objective, funds secured either internally or externally should be towards; (a) the provision of credit and equity financing to eligible venture capital financing companies to support SMEs which qualify for equity and quasi-equity financing; (b) the provision of monies to support other activities and programs for the promotion of venture capital financing (VCTF, Act 2004, Act 680). The VCTF pursue their funding activity through both direct and indirect structures. VCTF sometimes directly finance SMEs in critical sectors that Government expects growth. Alternatively, indirect financing is pursued through Venture Capital Finance Companies (VCFCs). These VCFC's are managed by Fund Managers, licensed as Investment Advisors by the Securities and Exchange Commission (SEC). Some of the Government set-up funding can be situated in the banking system and capital market-based system. Sadly, political interference has affected most of these funds and thus failed to realise their intended objectives as alternatives for enterprise financing.

Before the impact investing concept emerged, the Government of Ghana and two other development agencies initiated the Social Investment Fund (SIF). This fund is meant for social sector infrastructure development in BoP communities and SMEs that experienced financial constraints. SIF is a company limited by guarantee established in 1998 by the Government of Ghana, African Development Bank (AfDB) and the United Nations Programme and Development (UNDP). SIF was incorporated as an intermediary to deliver poverty reduction in BoP communities. The mandate includes 1. Facilitate access of the poor to economic and social infrastructure, i.e. schools and health centres; 2. Access to financial services including microfinance to MSMEs; 3. Strengthen Community Based organisations (CBO's), Non-Governmental organisations (NGO's and MFIs in support of poverty reduction; 4. Create social development fund as a resource pool and access by MSMEs. (SIF, 2019). Over the past two decades, SIF mobilised an estimated \$49 million from institutions including Arab Bank for Economic Development in Africa (BADEA), the OPEC Fund for International Development (OFID), the Government of Ghana (GoG), AfDB, UNDP. These funds were disbursed to execute infrastructure projects in health, education, and water and sanitation sector in more impoverished communities. Moreover, an estimated \$1.2 million Social Loan Fund was allocated to MSMEs in different districts across the country (SIF, 2019).

3.4.3 Policymaking institutions and financial architecture

The Finance Ministry is a crucial institution that leads the design of policies aimed at improving the business climate for bank-based, capital market-based funds and SMEs to thrive. Overall MOFEP functions consist of sound fiscal and financial policy formulation and implementation, resource mobilisation and allocation as well as public financial management. In performing these functions, MOFEP direct departments, agencies, and other institutions under its supervision to accomplish such mandates. For example, agencies such as the Securities and Exchange Commission (SEC), Institute of Accountancy Training and Ghana Revenue Authority (GRA) are under the supervision of the Finance Ministry (MOFEP, 2019).

Administratively, the public sector managers of these institutions report directly to the Finance Minister. Also, MOFEP has oversight responsibilities over other semi-autonomous institutions including the Bank of Ghana (BOG), National Lotteries Authority (NLA), Public Procurement Authority (PPA), and Ghana Cocoa Board (COCOBOD). Besides, various financing agreements, mostly through bilateral and multilateral relations, are initiated from the Ministry. Furthermore, there are other institutions under the supervision of the MOFEP that promote or regulate activities of businesses in Ghana, including SMEs. Key departments and desk of MOFEP liaise with multilateral and bilateral institutions through programs and projects for SMEs. Over the past decade, the Ministry of Finance sourced different tranches of long-term funding in the global Eurobond Market. The Government of Ghana, through MOFEP, raised USD 3 billion through the issuance of long-dated Eurobond securities, which was oversubscribed in March 2019 (MOFEP, 2019; Bloomberg, 2019). MOFEP, therefore, initiate all policies relating to the financial system or architecture in Ghana.

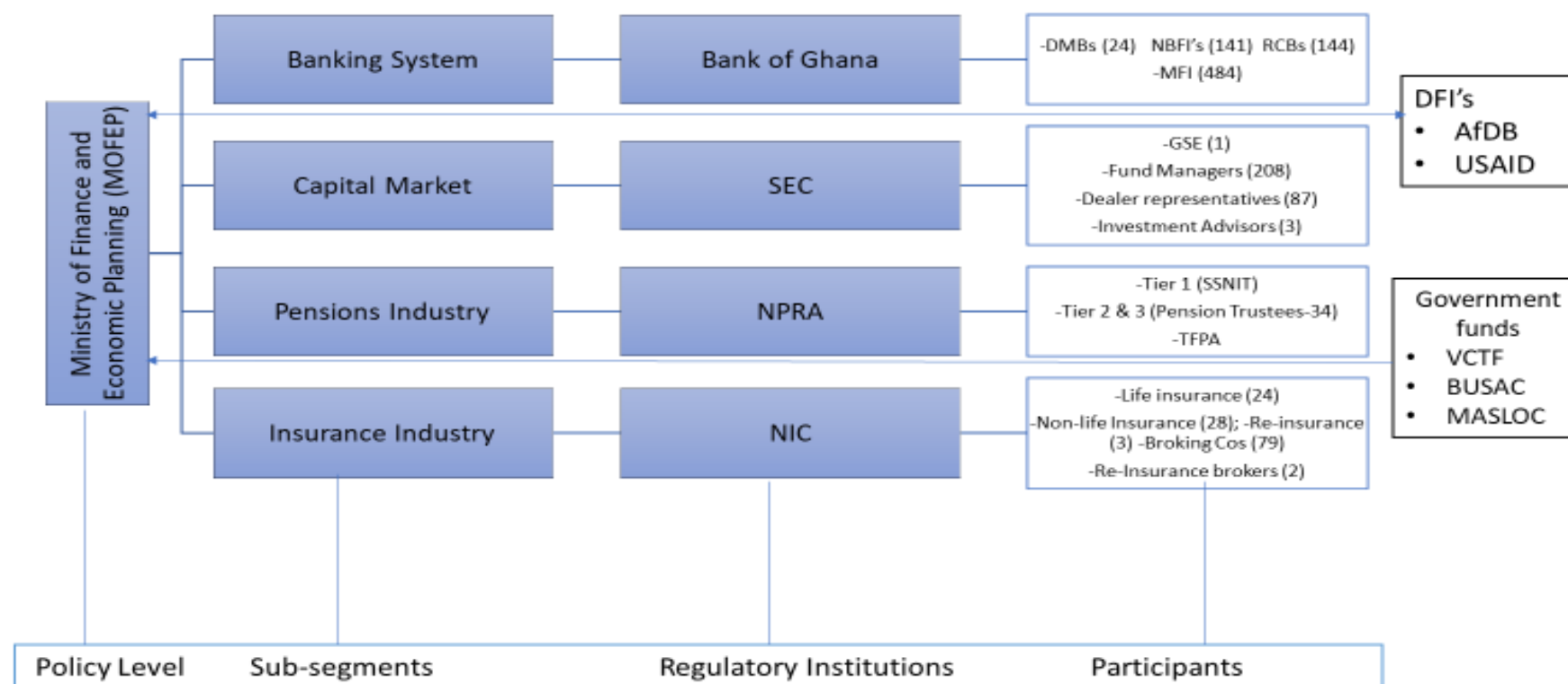
In summary, Ghana's financial architecture, which can be described as the bank-based system has three other sub-segments, namely the capital market-based segment, pensions and insurance. Bank-based and capital market-based segments constitute the investment avenues of funds mobilised by participants in the pensions and insurance sub-segments of the financial system. Therefore, access to funding for investments by high growth, missing middle and established SMEs are channelled through either the bank-based fund managers or capital market-based fund managers within the financial system. Meanwhile, the pensions and insurance industries or sub-segments of the financial system serve as sources

of capital and liquidity for bank-based and capital market-based segments. Banks perception of SMEs as risky, lacking proper governance structures, poor management leads to low capital allocation to owner-managers of this vital business sector.

These effects of lack of access to financing and constraints within the financial system worsened the myriad of societal problems that the country have encountered over the past four decades. The Government initiated funds to catalyse SME support though commendable has been criticised for representing channels for rewarding party officials. Impact investing funds, therefore, provided long term funding to aid liquidity of bank-based and capital market-based fund managers. Consequently improved financing of high growth, established and missing middle SMEs that seek to realise the social impact and financial returns. The Ministry of Finance represents the policymaking institutions with oversight over the Bank Of Ghana (BOG), Securities and Exchange Commission (SEC), NPRA and NIC representing regulatory institutions within the financial architecture.

In conclusion, investigating the phenomenon of impact investing in Ghana through bank-based and capital market-based intermediaries within the context mentioned above of the financial system assures the empirical contribution of the study. An interaction effect occurs among the institutions in the respective segment of the architecture in the form of debt, equity, quasi-equity, syndicated financing, and money market investments. Figure 3.3 shows Ghana's financial architecture.

Figure 3. 3 Current Financial Architecture of Ghana



Source: Authors illustration from Annual Reports of regulatory institutions 2019

3.5 Enterprise Architecture and Enterprise categories

This section reviews the enterprise architecture of Ghana to show the categories of ventures operating within this context. Further, the section presents economic and industrial policies to stimulate the growth of enterprises within the architecture in solving societal problems. Then reviews the regulatory and promotional context of the architecture in attracting different categories of enterprises to stimulate development and mitigate societal problems. Moreover, reviews the nature of SME governance within the enterprise architecture. Finally, a mapping of impact investment funding to SMEs within the enterprise architecture reflecting changing the entrepreneurial financing landscape and reducing SME financing constraints. Enterprise architecture for this study explains the categories and mix of single SMEs at different stages of growth and not the production system as a whole. The enterprise categories consist of those with employees of 1-5 (micro-size), 6-30 employees (small-size), 31-100 employees (medium size) and above 100 employees as large enterprises (GSS IBES, 2016). Large enterprises constitute 0.4% of total enterprises, with an estimated number of 2,539 in Ghana (GSS IBES, 2016). Sectoral distribution of these enterprises varies but predominantly in the services and industry sectors.

The current state of Ghana's architecture can be understood from the historical context of economic and industrial policies. Different economic and industrial policy reforms have shaped and influenced the constituent of enterprise architecture. High growth, missing middle and established SMEs that currently represent almost 5% of the enterprise architecture has been shaped and affected by various policy changes. Small enterprises: Some of these small enterprises tend to be registered. However, most of them are informal and rely on owners' expertise (AfDB and OECD, 2005). Of the total 638,234 enterprises operating in Ghana, 117,329 are categorised as small, representing 18.4 % (GSS IBES, 2016). The top 3 regional distribution of these enterprises comprise Greater Accra (4.6%), Ashanti (3.3%) and Western (1.9%). Typically, family members constitute more than 70% of the staff strength (AfDB and OECD, 2005). This study divides medium-size enterprises into three distinct categories using staff strength and an annual turnover in line with expectations of financial institutions and impact investment stakeholders.

These indicators include growth, expansion/upper medium and matured medium enterprises.

Growth enterprises: Enterprises that transition to this phase can be in their early growth, stable or upper growth stage and are medium-sized enterprises. The extent of business formalisation, operations and tax compliance is relatively high (AfDB and OECD, 2005). A total of 9,333 were found to be medium-size enterprises in Ghana (GSS-IBES, 2016). Adopting the 70%:20%:10% principle to segment these enterprises into growth, expansion and matured implies 6,533 enterprises occupy growth category. Turnover is estimated at \$350,000 to \$1 million with total assets up to \$0.5 million. A high growth SME conceptualised as for-social enterprise can be found within these categories of ventures.

Expansion/Upper Medium: Medium size enterprises in the upper growth phase and expanding in terms of distribution, product lines and new product development. They are legally registered with effective accounting systems which are essential to their survival (AfDB and OECD, 2005). From the GSS-IBES, (2016) estimation of 9,333 enterprises in Ghana constituting medium-size businesses, 20% representing 1,867 are in this category. Typically operate with a staff strength exceeding 100 and turnover higher than \$1.5 million. A missing middle SME can be categorised as expansion /upper medium-size venture within Ghana's enterprise architecture.

Matured medium-size enterprise: These are relatively few and become the target for bank-based and capital market-based financial institutions. Of the total 9,333 enterprises classified as medium-size ventures (GSS-IBES, 2016), it can be estimated that 933, representing 10 per cent constitute this category. Matured medium-size enterprises, therefore, occupy the top of the SME architecture in Ghana. An established SME conceptualised as for-profit social enterprise represent part of the matured medium business within Ghana's enterprise architecture typologies,

3.5.1 Industrial Policies to attract Enterprises within the Enterprise Architecture

Ghana has pursued different economic and industrial policies aimed at economic growth and industrial transformation, respectively. Economic and industrial policies aim to stimulate structural changes in the enterprise architecture for accelerated

growth and reduction in societal problems through development. Development and implementation of these policies span four decades. Beginning from the post-independence period, industrial policies developed and implemented first sought to realise import-substitution objectives or promote competition through liberalisation. SMEs were absent in the formal enterprise architecture during the post-colonial era because of perceived "political threats" (Aryeetey and Ahene, 2005, p.4). State-owned enterprises (SOE's) formed the majority of enterprises, and foreign-owned large businesses dominated the enterprise architecture during the import substitution period. Economic liberalisation period of the 1980s to 2000 did not also bode well for SMEs as industrial policies were unfavourable and also exposed them to greater competition (Aryeetey and Ahene, 2005). However, post-2000 ushered in the "the Golden Age of Business" which catalyse the growth of much high growth, missing middle and established SMEs. Many critics have argued that compared to other communities in South East Asia who achieved political independence during the same time, economic fortunes of Ghana went through a vicious cycle. Table 3.7 details critical economic and industrial policies implemented over the past three decades aimed at attracting different categories of enterprises into the enterprise architecture for economic development.

Table 3. 7 Economic and Industrial Policies of Ghana, 2000-2019

Period	Industrial Policy	Thematic Areas and strategic objectives
2000-2002	Poverty Reduction strategy	Focused on private-sector-led growth emphasising rural enterprises, SME development and linkage between agriculture and industry
2003-2009	Ghana Poverty reduction strategy I and II	Address macroeconomic stability, human capital development, and private sector-led growth.
2010-2013	Ghana Shared Growth and Development Agenda (GSGDA I)	Strategy focus entails improved enabling environment to empower the private sector; Active collaboration between the public and private sectors, including public-private partnerships and civil society organisations; Active government interventions where appropriate; Transparent and accountable governance and efficiency in public service delivery at all levels; and Effective decentralisation for enhanced local economic development
2013-2015	GSGDA II	Ensuring and sustaining macroeconomic stability; Enhanced competitiveness of Ghana's private sector; Accelerated agricultural modernisation and natural resource management; Oil and gas development; Infrastructure and human settlements development; Human development, productivity and employment; and Transparent and accountable governance
2011-2016	Industrial Development Strategy	Anchored on oil production economy and associated manufacturing activities. New industries include petrochemicals, fertilisers, LPG cylinder production. Development of manufacturing enterprises to process agricultural commodities, beans, fruits and shea nuts.
2017-2020	National Industrial Revitalisation Programme (Export-Led Industrialisation Strategy and Domestic Market-Led Industrialisation Strategy based on Import Competition)	Dubbed 10-point Agenda for Industrial Transformation. Key initiatives include industrial revitalisation programme (\$200m stimulus package); One District One Factory policy; Strategic Anchor Industries; One Region one Industrial Park; Development of SMEs; Export Development Programme; Domestic retail Infrastructure; Business Environment Regulatory Reforms; Industrial Sub-Contracting Exchange; Public-Private Sector Improvement Dialogue

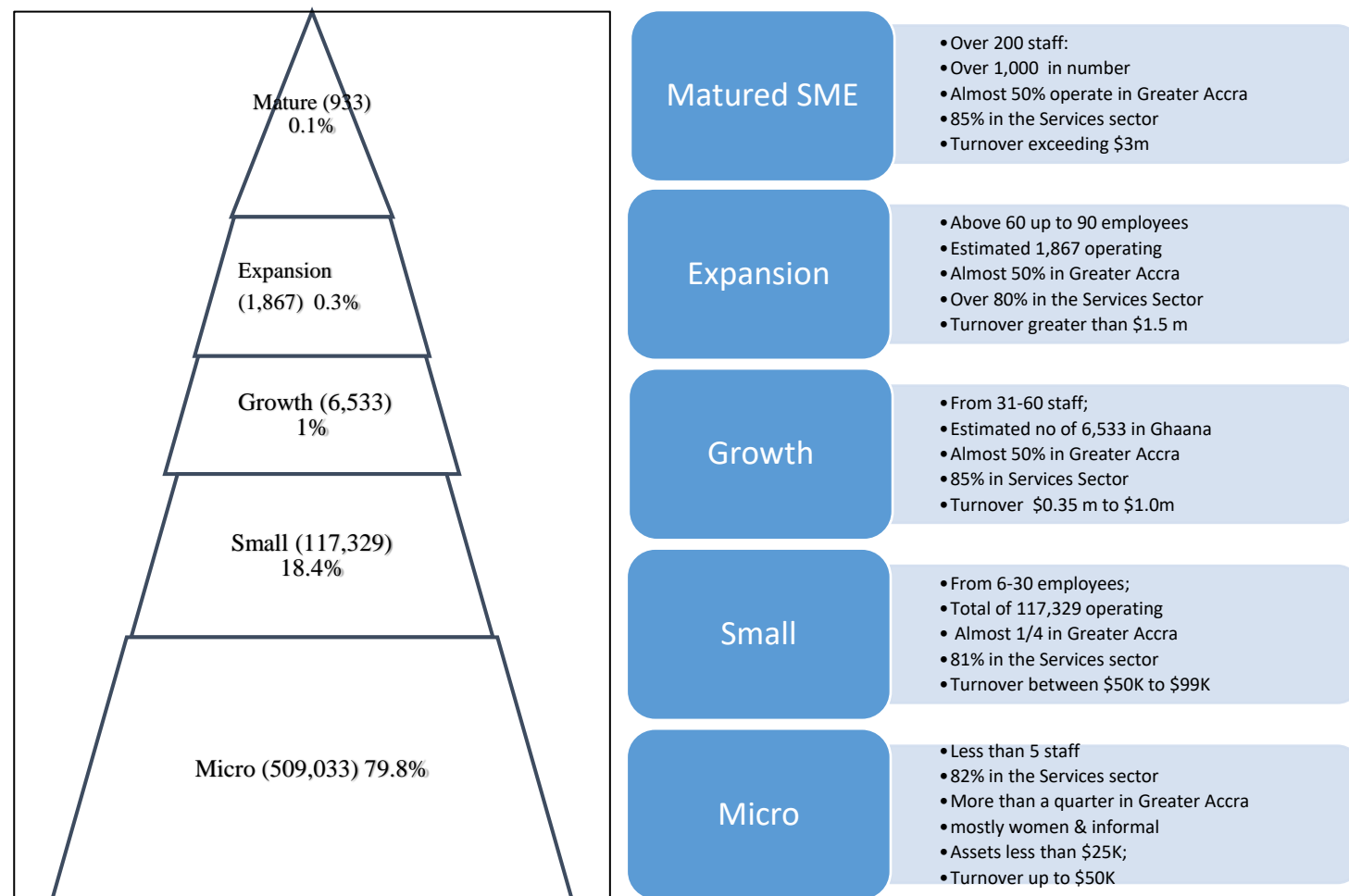
Source: Authors illustration from context review

3.5.2 Enterprise architecture, policy and legislative context

This subsection reviews the enterprise architecture to uncover key policymaking institutions that influence SME development in Ghana. Welter (2011) suggest that formal institutions shape and influence the agency of entrepreneurs and ventures within a social, economic and cultural context and settings. Many of the businesses within the enterprise architecture in Ghana are micro-enterprises. They are usually family-oriented and established for subsistence in Africa (AfDB and OECD, 2005). A total of 509,033 of these businesses are micro-enterprises representing 79.8 % operating in the services sector in Ghana. A review of the historical policymaking context in the next section explains why most enterprises are micro-businesses in Ghana. In terms of regional distribution of micro-enterprises, the top three regions consist of Greater Accra, Ashanti and Western regions with 22.3%, 15.8% and 7.8% respectively (GSS IBES, 2016). The enterprise distribution in Ghana follows the industrialisation drive after independence with a concentration within the 'golden triangle' (Songsore, 2009) of Accra-Tema, Kumasi and Secondi-Takoradi. Several institutions play a vital role in shaping the enterprise architecture through policies and growth strategies which influence the type of businesses operating within the architecture. These institutions are reviewed in the subsequent paragraphs.

At the policy level, the Ministry of Trade and Industry (MOTI) over the past three decades have spearheaded policies and initiatives aimed at promoting private sector development (MOTI, 2016). MOTI invariably collaborate with the MOFEP in promoting a business-friendly environment for SME and private sector in general. While MOTI focuses on the policies that promote growth and opportunities for SME's through access to physical assets, MOFEP identifies and initiative financing arrangements these businesses. The country implemented the Ghana Poverty Reduction Strategy (I and II) over the period 2001 to 2008 under the theme "the golden age of business" (Aryeetey and Ahene, 2005, p.1). Previous initiatives have been detailed in Table 3.6 above. Figure 3.4 shows the current enterprise architecture of Ghana shaped by the institutional context.

Figure 3. 4 Enterprise architecture and Characteristics



Source: Authors illustration from GSS IBES, 2016 data

It is worth emphasising that private sector development has been a critical component of the GSGDA and subsequent policies in the last few years. Because of the purported private sector role in economic development, Government initiated activities toward the development of strategies and policies in specific sectors. For example, Private sector development strategy, Industrial policy, and Industrial Sector Support Programme, Aid policy Education Sector Policy were expected to be developed under the GDSDA. The Ministry dedicated division called SME and Technology responsible for the implementation of the Trade Sector Support Programme (TSSP) under the Industrial Policy (MOTI, 2019). Others include technological innovation centre for capital goods manufacture; technology centres and business incubators; industrial sub-contracting and partnership exchange; education and industry linkage (MOTI, 2016). The National Board for Small Scale Industries (NBSSI) under MOTI is the apex institution for micro and small enterprise development in Ghana (NBSSI, 2019). The role of other regulatory and promoting institutions were reviewed under the institutional context. Recently, Government of Ghana under the auspices of the Ministry of Trade and Industry (MOTI) and other collaborating institutions launched the "Ten-point Agenda for Industrial Transformation" (MOTI, 2019) earlier shown in Table 3.6.

Another recently established policymaking institution is the Ministry for Business Development (MBD). Government objective of creating an enabling environment to attract foreign direct investment capital to high-end technology and non-resource-based industries facilitated the establishment of this new Ministry. In the year 2001, the regime established a similar Ministry called the Ministry for Private Sector Development (MPSD) which was scrapped due to change in political power. The MBD is among other things mandated;

- To facilitate the improvement of business in Ghana
- Promote the development of the MSME Sector for job creation
- To increase the entrepreneurial capacity of the youth
- To nurture, build and promote medium to large size indigenous Ghanaian business giants
- To enhance the image of Ghana as an investment destination through effective branding

In line with the above mandate, the Ministry launched a National Entrepreneurship and Innovation plan (NEIP) aimed at supporting start-ups and

small businesses (MOBD, 2019). MBD has identified key investment attractive sectors to create sustainable and high impact job opportunities for investors, both local and foreign. Other notable institutions comprise Ministry of Food and Agriculture (MOFA), National Board for Small Scale Industries (NBSS), Ghana Investment Promotion Council (GIPC), Ghana Free Zone Authority (GFZA) and Ghana Export Promotion Council (GEPC) have programs and projects focusing on SMEs. Besides the policymaking institutions that shape the context of the enterprise architecture, there are regulatory and promoting agencies that ensure stability and attractiveness of the context. These are reviewed in the following subsections.

3.5.3 The regulatory and promotional context of the enterprise architecture

The enterprises within Ghana's enterprise architecture are regulated by-laws, rules and formal institutions (Scott, 2001) in respect of business registration, licensing, taxes, business operating permit, among others. This regulatory context affects the entry choices, legitimacy, and access to resources (Scott, 2001) of SMEs in different sectors of the economy. In addition to business registration, access to specific industries requires compliance with different legislative requirements. Enterprise promoting institutions were also established to facilitate trade, attract foreign enterprises, and support indigenous SMEs to grow in different sectors of the economy. Knowledge about these regulatory and promotional contexts provide more in-depth insight on how impact investors can facilitate SMEs development through the capital for compliance with regulatory requirements and where investees could connect to global value chains through local network. Technical assistance facilities from impact investors through intermediary funds are sometimes utilised for SMEs to achieve regulatory compliance, especially standards, health, and safety. Moreover, review of three areas of the regulatory and promotional context follows show gaps for improvement. Table 3.8 exhibit a summary of regulatory and promotional institutions.

Table 3. 8 Summary of regulatory and promoting institutional context

Name of institution	Responsibility	Type
Ghana Revenue Authority (GRA)	Management, administration, and collection of domestic taxation empowered by GRA Act 2009	Regulatory
Registrar Generals Department (RDG)	Mandated by Companies Code 1963 (Act 673) for all business registration	Regulatory
Ghana Standards Authority (GSA)	Institution for standards, metrology, testing and quality assurance (Aryeetey and Ahene, 2005)	Regulatory
Ghana Investment Promotion Council (GIPC)	Established under the GIPC Act 2013 (Act 865) for investment promotion especially attracting foreign direct investment (FDI)	Promotional
Ghana Export Promotion Authority (GEPA)	Export promotion of especially non-traditional exports mandated by Act 396 of 1969	Promotional
Ghana Free Zone Authority (GFZA)	Attract both foreign and local export-oriented businesses through Free Zone incentives within export processing enclaves	Promotional

Source: Authors illustration from literature and websites of these institutions

The World Bank ranks Ghana at 106 out of 189 communities on the ease of paying taxes (World Bank, 2016). These taxation challenges affect the entry and post entry choices of different categories of SMEs, create uncompetitive environment, which subsequently affect SME growth and impact in alleviating societal problems. Impact investment funds therefore utilised some of their technical assistance funds to support investees to obtain these certification standards. Other formal regulatory institutions not reviewed in this study comprised Metropolitan, Municipal and District Assemblies (MMDA's) and the Lands Commission whose actions shape and affect SME growth in the country. The role of promotional institutions reflects in foreign direct investment inflows. UNCTAD report showed that

FDI, net inflows to Ghana over the past five years have been in the range of \$3.1 billion and \$3.4 billion (UNCTAD, 2019). Anecdotal evidence shows abuse of Ghana Free Zone Authority tax incentives to foreign businesses in the past by some investors with impunity.

Critically formal regulatory institutions to some extent have constrained the growth of SMEs through cumbersome business registration procedures, lack of property rights, and access to technology transfer (Kayanula and Quartey, 2000). Aryeetey and Ahene, (2005) in a survey of 200 SMEs in Accra and Tema Municipalities finds that 24% complained of business registration procedures and delays. Another 35% about land acquisition delays. In a recent report, Ghana ranked overall 120 on the World Bank (2018) ease of doing a business assessment, compared to Kenya (80), Cote D'Ivoire (139) and South Africa (82) (World Bank, 2018). This review facilitates understanding the type of enterprises that promotional institutions are attracting and regulatory context to stimulate economic development and improve entrepreneurial financing in Ghana. Moreover, it shows the gap within the entrepreneurial financing landscape that impact investment can fill in alleviating the existing societal problems.

In summary, few large enterprises (0.4%) exist within the enterprise architecture in Ghana. Most enterprises are micro (79.8%), followed by small (18.4%), and medium size (1.5%) enterprises (GSS IBES, 2016). Services sector constitute the primary focus of enterprises in all categories within the enterprise architecture and mostly located in the Greater Accra Region.

Greater proportion of micro and small enterprises are sole ventures for subsistence in Africa (AfDB and OECD, 2005) and the medium enterprises tend to be incorporated as limited liability companies. In terms of legislation on business registration per Ghana's Companies Code 1963 (Act 673), five categories of incorporation emerged. Social enterprise as legal form of business registration can be registered as limited liability or non-profit. Therefore, conceptualizing high growth start-ups and established SMEs as social enterprise is justified based on the current legislation in Ghana.

3.5.4 Governance of high growth, missing middle and established SMEs

The management of many enterprises within the enterprise architecture of Ghana are headed by the founder. Aryeetey and Ahene (2005) suggest that some SMEs are owned by founders who remain small and die small. Because many enterprises

are micro and the next category are small, most of these enterprises have inadequate governance systems and formalisation of business operating structures. Some high growth, missing middle and established enterprises with some degree of formalisation and governance systems rely on family and friends as directors and board members. Based on the pilot study conducted in March 2017, it emerged that some of these enterprise lack formal governance structures. Therefore, fund managers provide support for formalisation and proper governance systems to ensure that growth prospects are realised. For instance, a bank-based official remarked that “...in this part our world, the total ownership of business connotes success. It gives pride, it gives you some status in the society that I have this business, it is mine...I run it alone. That is the impetus for people to hold on to the business. So even if the business is failing and somebody want to inject capital or refinance, he will not agree. They will rather die with the business; the business will completely shut down than to take money from somebody else. You know it is a serious cultural dimension to all these things.....”. Thus, the cultural dimension of ownership implies many of these SMEs become reluctant to discuss equity financing with funders. Because equity funding would require a different governance of the SMEs in line with investor expectation to realise anticipated objectives.

In summary, many of the SMEs in the enterprise architecture are founder-owned and managed, relatively few have right governance systems and structures. However, the emergence of impact investment capital is likely to change the governance of high growth, missing middle and established SMEs within the enterprise architecture in Ghana. Impact investments channelled through intermediaries in Ghana are located within the bank-based and capital market-based segment of the financial system. Examples of impact investment intermediaries and how impact funds influence SMEs in the research setting of Ghana dovetails into the next section 3.6.

3.6 Impact Investing and financial Architecture

Impact investing can be found within the bank-based and capital market-based segments of the financial architecture. Both the bank-based and capital market-based segments of the financial architecture represent capital deployment intermediary or channels for impact investors. Ultimately, the use of these channels

of capital deployment are towards SMEs to achieve the expected social and environmental impacts including financial return in BoP communities.

3.6.1 Bank-based intermediaries

Impact investing funds from DFI's, foundations and private investors have been channelled through some DMBs for on-lending to SMEs. Illustratively, UT Bank which carved a niche for providing capital to SMEs closed a \$15 million equity deal with IFC in 2015 for SME financing. Another DMB, Access Bank Ghana Ltd also signed a senior convertible loan agreement with the International Finance Corporation for \$30 million investment in 2015 (Access Bank, 2018).

Similarly, impact investing through debt equity and quasi equity instruments occurs through lower-tier bank-based segments. For example, Oikocredit deployed GH ¢ 10 million debt to ASA Savings and Loans Ltd in 2015 (Oikocredit, 2017). Furthermore, Goodwell Investments acquired a 30 percent equity interest in Women's World Banking Ghana (WWBG), a savings and loans NBFIs with an estimated SME client of over 70,000 across the country in 2015 Table 3.9 below show examples of impact investing through bank-based fund manager

Table 3. 9 Assets under management by Bank-based fund managers, 2017

Impact Investor	Investee	Business Type	Investment/Deal Size	Period	Type
IFC	Access Bank Ghana Ltd	DMB	USD \$30 million	2016	Debt
IFC and MasterCard Foundation	Fidelity Bank Ghana	DMB	USD \$37.4 million	2016	Debt
IFC	UT Bank	DMB	USD \$15 million	2015	Equity
Goodwell Investments BV	Womens World Banking	Savings and Loans Company	N/A	2015	Equity
Goodwell Investments	Nwabiagya Rural Bank	RCB	USD \$ 1 million	2014	Equity
Goodwell Investments	Innovative Microfinance	MFI	N/A	2016	Debt
OIKOCREDIT	ASA Savings and Loans Ltd	Savings and Loans Company	GH ¢ 10 million	2015	Debt
OIKOCREDIT	Advans Ghana	Savings and Loans Company	GH ¢ 9 million	2014	Debt
OIKOCREDIT	Opportunity International Savings and Loans	Savings and Loans Company	GH ¢ 8 million	2011	Debt
OIKOCREDIT	Sinapi Aba Savings and Loans	Savings and Loans Company	GH ¢ 5 million	2011	Debt
OIKOCREDIT	Bonzali Rural Bank Ltd	Savings and Loans Company	GH ¢ 2 million	2011	Debt
OIKOCREDIT	Fidelity Equity Partners Ltd	Private Equity Fund	USD \$ 2 million	2008	Equity

Source: Authors illustration from the websites of bank-based fund manager

3.6.2 Capital Market-based

Unlike the bank-based segment, impact investing within the capital-market-based segments were deployed through private equity fund managers seeking to realise social impact and financial returns through direct investments into SMEs. The funding sources of these impact investing funds comprise DFI's, Governments, Private investors, Philanthropic Organizations and Pensions funds from developed communities.

Contrasting the bank-based and capital market-based impact investing, intermediaries within the bank-based segment serve as credit transmission channels of impact investors for on-lending to SMEs through debt, equity and quasi equity instruments. However, the capital market impact funds are investment vehicles that attract capital through investment solicitation with concise investment framework. Also, payback period to investors after the funding life vary, usually 7 to 10 years.

In summary, both bank-based and capital market-based intermediaries represent channels of impact investing in curbing the financing challenges of SMEs while achieving social and environmental impact together with financial return. Table 3.10 present various capital market-based funds (anonymised) that have attracted impact investment capital for funding SMEs in Ghana.

Table 3. 10 Capital Market Based funds description, funding sources, investees and sectors

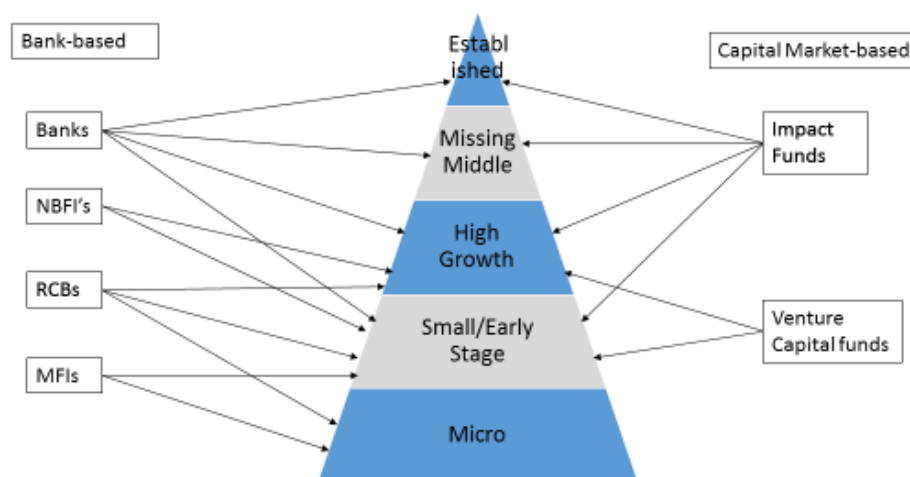
Fund	Funding Sources	Fund Size	Ticket size	Investees	Sectors
CGF001	KWF, DGGF, Norfund, CDC, FMO, USAID, AfDB, EIB, IFC, Proparco, Shell Foundation, Calvert Foundation, Lundin Foundation, Finn fund, Triodos	\$ 170 m	\$0.1 m to \$1.5m	Cob A Ghana, Homefoods Ltd, Firm Foundation Montessori et	Wholesale and Retail, Manufacturing, IT, Transport, Agriculture et
CIP002	AfDB,EIB, Government of Monaco, FMO, Proparco, BOAD, Rothschild Foundation, Small Foundation, Caritas	€ 65 m	€ 0.3 to €1.5 M	Eden Tree Ltd, Volta Car Rental Services	Agriculture, Transport, Solar Energy
CIN003	AGRA, CDC, FMO, LUNDIN Foundation, NETRI Foundation, Proparco, SEDF	\$50 m	\$ 0.2m to \$4 m	Sekaf Ghana Ltd, Kona Agro Processing	Agriculture
COA004	DGGF, IFC and other institutional investors	\$50.5 m	\$0.5 m to \$ 5m	Yet to be deployed	Education, Financial services, Housing, Healthcare, Food services and Hospitality
Goodwell Investments BV	Goodwell Microfinance Development Company II, KfW and Norwegian Microfinance Initiative	\$50 m	> \$1 m	Women's World Banking, NRB, Innovative Microfinance	Financial Services

Source: Authors illustration from websites of fund managers

3.7 Impact investing and Enterprise Architecture

This section reviews and maps impact investment unto various categories of SMEs within the enterprises architecture to show which of these segments is attracting impact capital to ameliorate societal problems. Bank-based funds typically attracting impact investment capital allocate funding to different categories of SMEs. Banks normally target all enterprises in different segment of the enterprise architecture including high growth, missing middle, established SMEs and large enterprises. The non-bank financial institutions within the bank-based segment including RCBs, Savings and Loans companies and MFI target micro, small and sometimes early stage enterprises. Figure 3.5 shows that typologies of SMEs targeted by bank-based and capital market-based fund managers. Bank-based funds especially commercial banks target early stage, high growth, missing middle and established SMEs. Lower tier bank-based funds however focus on micro, early stage and high growth SMEs with differences and similarities.

Figure 3. 5 Mapping of impact funds and SME categories



Source: Authors illustration, pilot study March 2017

Capital market-based funds comprising venture capital, private equity and impact investment funds also target SMEs in the early stage to established stage in the enterprise life cycle and size. As earlier explained fund economics implicitly play a role in the stage and type of SMEs that capital market-based funds target for investment. Based on the pilot study it emerged that a number of impact funds

operate as catalyst for SMEs at growth, expansion, and transition to large enterprise stages. GG Ltd for example structured US\$1,483,525 debt deal for Cob A, Ghana Ltd (CAGL). A small water purification enterprise with less than 20 staff, packaging purified water into sachets, plastic bottles and dispensers targeting over 4,000 families (GCII,2015). The GG deal grew the company to a staff strength of 1,100 and an estimated annual revenue exceeding three times deal size.

Similarly, Home foods Ltd (HFCL) manufacturer of Ghanaian traditional food products with 20 employees has grown from a small enterprise into a matured medium size enterprise. HFCL annual revenue is almost US\$10 million annually and provides more than USD \$0.5 million to families of local raw materials suppliers after the GG deal (GCII, 2015).

Another fund closed a syndicated deal for PEG, a leading off-grid solar company in Ghana, of \$7.5 million Series A Round (I and P, 2016) is another example. The deal aims at expansion in Ghana and potential entry into the Cote D'Ivoire market. Impact funds play an important role within the enterprise architecture includes to ensure that SMEs achieve the objectives of social impact. These include; governance (ownership and Control); fast and accurate capital deployment; bouquet of financial solution; technical assistance (Lamptey, 2017). The following section provides a summary and conclusion of the chapter.

3.8 Chapter Summary and Conclusion

The chapter detailed five main reasons for examining the historical context of impact investing and Ghana as the research setting. Key evidence of the institutional context, financial architecture and enterprise architecture emerged. Social Investment fund (SIF) represent the first fund established in the 1990's prior to the concept of impact investing in Ghana. The research setting of Ghana is of significance interest because of the growth of impact investment flows over the past decade estimated at \$1.6 billion (GIIN, 2015) among others. There is notable increase in liquidity and capital for bank-based, capital market-based and other non-bank financial intermediaries due to the emergence of impact investing These evidences from the context further justify the research objectives set out in section 1.3 and the emerging findings from the study on distinctiveness of finance-first and impact-first investors channelling funds through bank-and capital-market based fund managers. Impact investing is also said to be transforming the enterprise financing landscape through pluralistic enterprise financing options and institutions. The

review further reveals differences and similarities within the bank-based and capital market-based funds targeting high growth, missing middle and established SMEs. However, a lack of clarity of these differences based on published documents does not assure an in-depth understanding of how impact investment transformed the enterprise financing landscape in Ghana. This is a significant knowledge gap being addressed through this thesis, knowledge that is vital for informing Ghana's attempt to attract and benefit from impact investments.

The evidence of a transition from government-led approach to private sector-led approaches to enterprise development through impact investment and the associated implications is another key finding from this chapter. What is observed is that Non-bank financial institutions (NBFIs), Rural Commercial banks (RCBs), Social Investment funds (SIF) and more recently, a government-created Venture capital Trust Fund are creating diverse entrepreneurial financing opportunities for all categories of SMEs. This has created a major debate about whether commercially viable SMEs represent the solutions to the intractable development problems of Ghana, discussed in chapter as wicked problems. These private-sector led approach to alleviating societal problems through impact investor funds are empirically examined in chapters 5 and 6. Chapters 5 and 6 details analysis of governance mechanisms deployed by impact funds, the associated strategy changes these instigate in SMEs and the outcomes for impact funds, SMEs and wider society. From a regulatory environment review, legislations and rules that seek to consolidate the financial system have long affected entry and post-entry activities of enterprises including financial service providers. The empirical chapters in this thesis will provide the much needed research evidence to begin to judge whether impact investing can address some of the governance and regulatory challenges that have persistently affected SMEs in Ghana and, if not, what the role of impact investing in SME financing can be improved.

The review further shows that impact funds serve as alternative sources of funding for BBF and CMB fund managers for their liquidity and capital adequacy. Bank-based fund managers exercise huge caution in allocating capital to different categories of SMEs in BoP settings due to perceived risk. Capital market-based funds focus more on high growth and established enterprises because of their ability to achieve high social impact and financial returns over the investment period. Fund duration, size and implicit fund economics also influence the extent of selectivity of SMEs by capital market-based funds. Diverse opportunities emerged for impact

investment fund managers in different sectors where intractable societal problems are prevalent. These opportunities further explain strategy change of private equity fund managers in terms of sector focus with the emergence of impact investing presented in Chapter 6. Evidence of linkage of bank-based funds, SMEs and MNCs through financing are provided in the empirical Chapter 5. It suffices to add that both financial and enterprise architecture do not exist in isolation, they are interlinked, and they influence each other through funding of enterprises and channels of impact investment capital and that is why the study also shows the influence of one on the other in the two empirical chapters.

It also emerged from the financial architecture that impact funds representing bank-based and capital market-based funds are situated within the banking and capital market segments respectively of the financial system. This is quite expected because of the reforms and regulatory regimes of the financial system in Ghana. However, what requires deeper insight is how these different categories are effectively supporting investee SMEs as agents of social transformation in BoP communities. The extent to which impact investment capital has alleviated SME financing constraint, provided improved entrepreneurial financing opportunities within the research setting requires further interrogation. Moreover, why and how these fund managers have changed their strategies to finance or support high growth, missing middle and established SMEs that deliberately pursue dual goals of social impact and financial returns. Bank-based and capital market-based funds situated in the financial architecture implies that there are differences and similarities between the two categories, but these are not as clear when one critically examines only published documents. This therefore lends credence to adopting multiple data collection techniques to uncover the influences of impact investment funds on investee SMEs in BoP communities like Ghana.

The enterprise architecture review uncovered investments and financing of SMEs by impact funds mostly at the growth and expansion stage of the enterprise growth cycle. Cross-case analyses of chapters 5 and 6 provides an integrated discussion about the place of impact investing within the broader enterprise financing landscape of Ghana. A critical analysis of this evidence of capital-market-based funds uncovered fund economics as an implicit determinant of fund managers focusing on high growth and missing middle SMEs at expansion stage. Moreover, both financial and enterprise architecture do not exist in isolation, they are interlinked, and they influence each other and that is why we need to study how they

are interconnected in influencing investee SMEs as two sets of cases presented in Chapters 5 and 6. Institutional context further revealed formal regulatory and promoting institutions safeguarding the enterprise and financial architecture for stability and growth. Finally, the research setting could be extended to the African context which exhibit commonalities emerging from the framework applied in Ghana.

CHAPTER 4

Research Design and Methodology

4.1 Introduction

This chapter presents the research methodology used to undertake the study presented in this thesis. It demonstrates how the theoretical framework developed in Chapter 2 to investigate the influences of bank-based and capital market-based funds on investee SMEs to realise the social impact and financial returns in BoP communities informs the adoption of a qualitative research design. Where influences are viewed from governance, strategy change and impact perspectives. While many studies have highlighted the role of SMEs in developing countries, few if not any have examined high growth, established, and missing middle SMEs as for-profit social enterprises in pursuit of dual goals with the emergence of impact investing.

The study adopts a qualitative research approach involving [two](#) embedded case study approach of impact funds with sub-unit of analysis within the research setting of Ghana. Bank-based funds (BBF) and Capital Market-based funds (CMB) represent two distinctive case studies and investors, enterprises, and institutions comprise sub-unit of analysis detailed under the research design in Section 4.3. The research setting of Ghana represents one of the significant recipients of impact investments over the past decade, reflecting a rich context to conduct this study as detailed in Chapter three. The methodology employed in this chapter draws on a theoretical framework developed in Chapter 2 integrating literature from different disciplines including impact investing, social entrepreneurship, economics, finance, strategic management as well as governance and strategy change concepts. This study required a set of methods in order to address the research questions and objectives in Section 1.3.

The remaining sections of the chapter are structured as follows: Section 4.1 sets out the research paradigm and research strategy. Sections 4.2 examines the research philosophy and research design. Section 4.3 explains the ideas which informed the overall research design. Section 4.4 details sampling approach followed by Section 4.5, which presents how access to research participants for data

collection was obtained. Section 4.6 reveals the data collection methods deployed followed by Section 4.7, which focus on methods of data analysis. Details of ethical issues and chapter summary were presented in Sections 4.8 and 4.9, respectively.

4.2 Research Paradigm

Impact investing as a phenomenon appears to lack a definitive “epistemological and ontological boundaries” and as such permit flexibility in adopting different methods for investigation (Rizzi, Pellegrini and Battaglia, 2018, p. 808). In undertaking this research which investigates the phenomenon of impact investing, the need for combining existing theoretical knowledge and empirical insights (F. Rizzi et al., 2018) within the universe of social finance plays an important role. This study integrates literature and concepts from different disciplines to develop a theoretical framework for application to a research setting in Ghana might justify the significance of a new research paradigm. A research paradigm consists of a broad framework of perception, beliefs, assumptions, and understanding of theories for undertaking research including methods and philosophies. Drawing on existing paradigms for the conduct of this impact investing research advances knowledge and demonstrate evidence of ‘why’ and ‘how’ of such a multi-disciplinary field evolution. Every researcher requires a framework which situates the issue under investigation and in turn, determines the choices of methods for examining the problem (Collis and Hussey, 2003). There are several research philosophies in a continuum (Morgan and Smicrich, 1980; Saunders et al., 2009). However, two significant strands have been employed by business and management scholars: Positivist and Interpretivist (Phenomenology).

Positivist holds a philosophical stance that advocate methods of natural science and assumes that knowledge of reality is obtained through generalisable and observable discrete objects (Saunders et al., 2009). In seeking to understand and explain reality, positivist applies the methods and principles of natural science (Collis and Hussey, 2003; Bryman and Bell, 2015).

Interpretivist adopts a philosophical stance which seeks to explain social reality based on human behaviour as a product of how people interpret the world (Collis and Hussey, 2003; Bryman and Bell, 2015). Interpretivist paradigm recommends that reality is socially constructed rather than from external sources. Further, interpretivist suggest that explanation and understanding of social reality can be studied by constructing models of shared meanings based on participant

concepts, beliefs and views (Saunders et al., 2015). Collis and Hussey (2003) provide differences between the two dominant research paradigms in Table 4.1

Table 4. 1 Features of two paradigms

Positivism	Interpretivism
Rely on large samples	Rely on small samples
Produce precise, objective, quantitative data	Produce rich, subjective, qualitative data
Concerned with hypothesis testing	Concerned with generating theories
Produce results with high reliability but low validity	Produce findings with low reliability but high validity
Allow results to be generalised from the sample to the population	Allow findings to be generalised from one setting to another similar setting

Source: Collis and Hussey (2003)

Based on the overarching research objectives of the study, an interpretivist research paradigm provides an opportunity to critically investigate how impact funds govern SMEs that pursue dual goals of social impact and financial returns in BoP communities. Corley and Gioia (2011, p.12) define theory as a "statement of concepts and their interrelationships that shows how and why a phenomenon occurs". Critically investigating the 'how' of impact investment fund [manager](#) influences on investee SMEs for social impact and financial returns through an integrated theoretical framework reflect theory generation. Evidentially from Collis and Hussey (2003) table 4.1 above, the focus of this study is toward theory generation or theory building through subjective meanings of bank-based and capital market-based fund managers as two case studies while impact investors, investee SMEs and institutional actors represent sub-unit of analysis. Eisenhardt and Graeber, (2007, p. 25) suggest that "theory-building involves use of one or more cases to create theoretical constructs, proposition and or mid-range theory from case-based empirical evidence". [Considering the nascent](#) nature of the impact investing discipline in the last decade and lack of adequate academic research (Hotcstadter and Scheck, 2015; Ormiston et al., 2015), the need for an integrated theoretical framework for the conduct of this study is significant.

Moreover, the lack of plausible and viable existing theory (Eisenhardt and Graebner, 2007) which are not silos-based justify why the research draws on different disciplines to develop a theoretical framework in Section 2.8 and empirically apply within the research setting of Ghana. According to Bhatt and Ahmad (2017, p.398), an interpretivist research paradigm draws on the following assumptions:

- Recognition that research is value laden.
- Relies on subjective experiences and behaviours of participants.
- Heterogeneity of experiences is relevant due to the involvement of multiple stakeholders.
- Values of research participants are noted.

4.2.1 Research Philosophy

Research philosophy concerns the development of knowledge, which entails assumptions and beliefs of how academics perceive the world (Saunders et al., 2015). A significant way to develop knowledge is to answer questions that are important for society and which we do not currently have answers as detailed in table 4.2. This is what this study is seeking to do with the two research questions stated in Section 1.3. In providing answers to those research questions represent new knowledge relevant for both theory and practice. Drawing on different philosophical underpinnings in developing this new knowledge from this study is further explored in this subsection. Moreover, how scholars view the world underlie the research strategy and methods they employ to conduct studies. This section details the philosophical underpinning of the study to realise the overarching objective of examining how impact funds govern SMEs that pursue dual goals of social impact and financial returns in BoP communities. The philosophical position then informs the research strategy and research design. Three main research philosophies are employed within the research process: ontology, epistemology, and axiology.

According to Saunders et al. (2015, p.128), ontology refers to researchers "assumptions about the nature of reality or being". Such a view of reality determines the 'how' a researcher view his/her relationship with study participants in explaining the phenomenon under study. Objectivist ontology suggests that social reality is a concrete structure with constituent parts, observed in concrete behaviours and activities. In other words, reality representing the world can externally be explained objectively. However, subjectivist ontology holds the view that reality is a projection of human imagination and the outcome of the human mind. Subjectivist suggest that reality is subjective and socially constructed through human experiences and perceptions. Epistemology, however, concern researchers "assumptions about knowledge, what constitute acceptable, valid and legitimate knowledge" (Saunders et al., 2015, p.128). Positivist and subjectivist epistemologies represent two ends of

a continuum. Saunders et al. (2015) suggest that different epistemologies have implications on methods chosen as well as strength and limitations of future research findings. Axiology refers to the "sets of values and ethics" of a researcher within the research process (Saunders et al., 2015; p.128). Table 4.2 reveals paradigm contrast and type of research questions for each.

Table 4. 2 Comparison of research paradigms

Assumption type	Questions asked	Objectivism	Subjectivism
Ontology	What is the nature of reality	Real/External/One true reality	Nominal/Socially constructed; Multiple realities
Epistemology	How can we know what we know?	Adopt assumptions of the natural scientist	Adopt assumptions of the arts and humanities
	What is the relationship of the researcher to that researched?	Research is independent of the researcher	Researcher is involved in the research
Axiology	What is the role of values in research?	Value-free	Value-bound; researcher
Rhetorical assumption	What is the role of language?	Formal style, passive voice; operationalised and measurable concepts; objective facts; hypothesis formulation	Personal voice; informal; pattern observation; researcher involvement
Methodological	What is the process of research?	Deductive; cause-effect; large sample; highly structured	Inductive small sample; in-depth investigation; qualitative methods of analysis

Source: Saunders et al. (2015)

This study examines how impact funds govern SMEs and strategy change of impact funds and SMEs to realise the social impact and financial returns in BoP communities. In doing so, it pays attention to the influences of impact investors on Bank-based and Capital market-based funds from a governance, strategy change and impact perspectives. Subsequently, the research focused on the influences of bank-based and capital market-based impact funds on SMEs from similar perspectives. The latter justifies the adoption of a more subjectivist ontology which holds that reality is subjective, multiple realities, and socially constructed through human experiences and perceptions (Saunders et al., 2015) rather than objectivist which assumes that reality can be externally explained objectively.

Previous studies on financing-decision making have adopted conventional positivist epistemology (Ayyagari et al., 2011; Beck et al., 2013; Quartey et al., 2017). These studies view the research objects as independent of the researcher, value-free and rhetorical assumption of objective facts and hypothesis formulation. Methods employed were structured based on cause-effects, deductive strategies and use large samples to conduct the study. However, some researchers have highlighted the need to get beneath the surface through the adoption of subjectivist and intersubjectivist epistemologies (Ahlstrom and Bruton, 2006; Ormiston et al., 2015; Roundy, Holzhauer and Dai, 2017). This study is informed by a subjectivist epistemological position informed by critical realism. The study assumes that knowledge is personal and experiential, and the researcher is connected to the research participants and the research setting. Further, the study adopts both deductive and inductive methodological approach based on the developed theoretical framework and emerging dimensions from participants, respectively. Finally, the theoretical framework lends itself more to a qualitative constructionist approach compared to the objectivist approach.

In summary, the study adopts an interpretivist ontology of social constructionist and subjectivist epistemology informed by critical realism to investigate the phenomenon of impact investing within the research setting of Ghana.

4.3 Research Design

Research design encompasses a process describing the various stages of the research process that links the philosophical assumptions to approaches for conducting a study, data collection and analysis. Denzin and Lincoln (1998, p.28)

describe it as a "flexible set of guidelines that connect theoretical paradigm to strategies of inquiry and methods for collecting empirical material". Yin (2014, p.28) points out that a "research design is a logical plan for getting from here to there where here may be defined as the initial set of questions to be answered and there is some set of conclusions (answers) about these questions". Furthermore, the research design is "a framework for the collection and analysis of data" (Bryman and Bell, 2015, p. 49).

Taking these definitions and descriptions of research designs altogether, a research design ultimately situates the researcher in the empirical world through interconnection with methods of data collection, analysis, and interpretation toward findings of the phenomenon under investigation. Table 4.1 details the research criteria recommended by Yin in selecting a research design.

Table 4. 3 How to select a research design

Research strategy	Form of the research question	Requires control over behavioural events?	Focuses on contemporary events?
Case study	how, why	no	yes
Survey	who, what, where, how many, how much	no	yes
Archival analysis	who, what, where, how many, how much	no	yes/no
History	how, why	no	
Experiment	how	yes	yes

Source: Yin 2014

Yin provided a valid criterion for selecting a case study research design to assist researchers in choosing a case study approach, including a focus on the research question. Based on the selection criteria detailed in Table 4.1, a case study research design is appropriate for investigating the influences of bank-based and capital market-based fund managers on investee SMEs to realise the social impact and financial returns. In line with research questions for this study previously stated in 4.0 using how/why questions, a case study research design became suitable for conducting this research. The study adopts a qualitative case study research design

involving a multiple case study of impact funds with sub-unit of analysis. Yin further defined a case study as “an empirical enquiry that investigates a contemporary phenomenon (the "case") in-depth and within its real-world context especially when the boundaries between the phenomenon and the context may not be clearly evident” (Yin, 2014; p.16). Premised on the suggestion by Yin, four significant reasons informed the selection of a case study for this research in addition to the research questions. First, impact investing emerged within the past decade represents a contemporary phenomenon worth investigating in Ghana with rich-context specific factors. Second, case studies, in general, provide opportunities for an in-depth and comprehensive understanding of the impact investing phenomenon with multiple units of analysis like this study. Third, multiple options for conducting this study such as geography (Regions or districts), investors, fund managers (bank and capital market-based), relationships (investors-intermediaries-investees) and investees only are amenable to case study designs. Finally, the multi-dimensional nature of case studies (quantitative or qualitative) for investigating the phenomenon of impact investing in single or multiple contexts justify the adoption.

Empirical studies and methodology books categorise research design into quantitative and qualitative research for business and management social enquiry. A quantitative research approach has an underlying assumption of objectivist ontology and positivist epistemology (Morgan and Smircich, 1980). Bryman and Bell (2015) observe that quantitative research strategies focus on quantification or expressed in numbers. Such research designs adopt a deductive approach to determine relationships among variables with the aim of testing theory.

4.3.1 Other research designs

Qualitative research designs have an underlying subjectivist ontology and phenomenological epistemology (Morgan and Smircich, 1980). Qualitative research designs, however, collect and analyse data in the form of words rather than quantification (Easterby-Smith et al., 2008; Bryman and Bell, 2015). Moreover, in terms of research strategy, qualitative studies adopt inductive and sometimes abductive approach with a focus on building theory or theory elaboration. Beyond the dichotomy of quantitative and qualitative research designs, in the main, research designs can be further classified as case study designs experimental, longitudinal, cross-sectional and (Silverman, 2010; Yin, 2014; Bryman and Bell, 2015).

Experimental designs refer to classic experimental design entails the random assignment of subjects to two groups, namely control or experimental groups. Conditions for the experimental group are manipulated by the researcher and compared to the control group (Easterby-Smith et al., 2008; Bryman and Bell, 2015). Such research designs are employed in natural science and medical research due to the setting. However, in business management and organizational research, field experiments are conducted in a real-life setting. Two major advantages comprise clarity of issue and ease of study replication and claims (Easterby-Smith et al., 2008). The difficulty of randomization in business research creates some disadvantage and internal validity (eliminating systematic factors of bias) and external validity (generalizability of findings) if not appropriately addressed threaten experimental designs (Bryman and Bell, 2015).

Cross-sectional or survey designs involve data collection on more than one case and at a single point in time (Bryman and Bell, 2015; Saunders et al., 2009). At least one independent variable and at least two categories are present (Bryman and Bell, 2015; Easterby-Smith et al., 2008). Such designs are usually aimed at collecting quantifiable data relating to two or more variables investigated to determine relationships (Bryman and Bell, 2015). Longitudinal designs come in different forms and concerns investigation into a phenomenon over a period or across time. Before and after longitudinal designs entail two points in time for the same group of participants or sample (Bryman and Bell, 2015). Further corroborating the examination of the same group of research participants, Bryman and Bell (2015, p.66) pointed out that in longitudinal designs "a sample is surveyed and then surveyed on at least one further occasion" Three other variations of longitudinal studies emerging from literature comprises time series, panel study and cohort analysis. As alluded earlier, case study represents the most suitable research design to critically investigate the phenomenon of impact investing in Ghana. Case study research strategy is presented next detailing how it has been applied in the study.

4.3.2 Case study research strategy

Yin (2014) proposes five elements of case study design strategy- a case study's questions; its propositions; its unit (s) of analysis – the "case"; the logic linking the data to the propositions and the criteria for interpreting the findings. Research

questions and propositions via theoretical framework for this study have been detailed in previous chapters.

The 'case' representing the unit of analysis involves a two-step process of defining and bounding the case (Yin, 2014). A "case" is defined as the phenomenon of some sort occurring in a bounded context, and it is the unit of analysis (Miles and Huberman, 1994; p.25). Yin, 2014 posits that bounding the case or the unit of analysis assists in determining the research setting, time and scope of data collection, data about the case and those external (context). Four types of case studies identified by Yin (2014) comprise- holistic single case (single unit of analysis); Single case embedded (multiple units of analysis); Holistic multiple cases (single unit of analysis); Multiple cases embedded (multiple units of analysis). Informed by the preceding, this research relied on a multiple embedded case study of impact funds with multiple units of analysis for investigating the phenomenon of impact investing within the research setting of Ghana (discussed-next paragraph). Bounding the case as impact funds within the research setting of Ghana facilitated data collection and other contextual factors detailed in section 4.3. Ghana was selected as the research setting, bank-based and capital market-based funds as multiple embedded case with sub-unit of analysis based on the context-specific factors including institutional, financial and enterprise architecture and geographic context (Autio, 2014; Kimbu and Ngoasong, 2016).

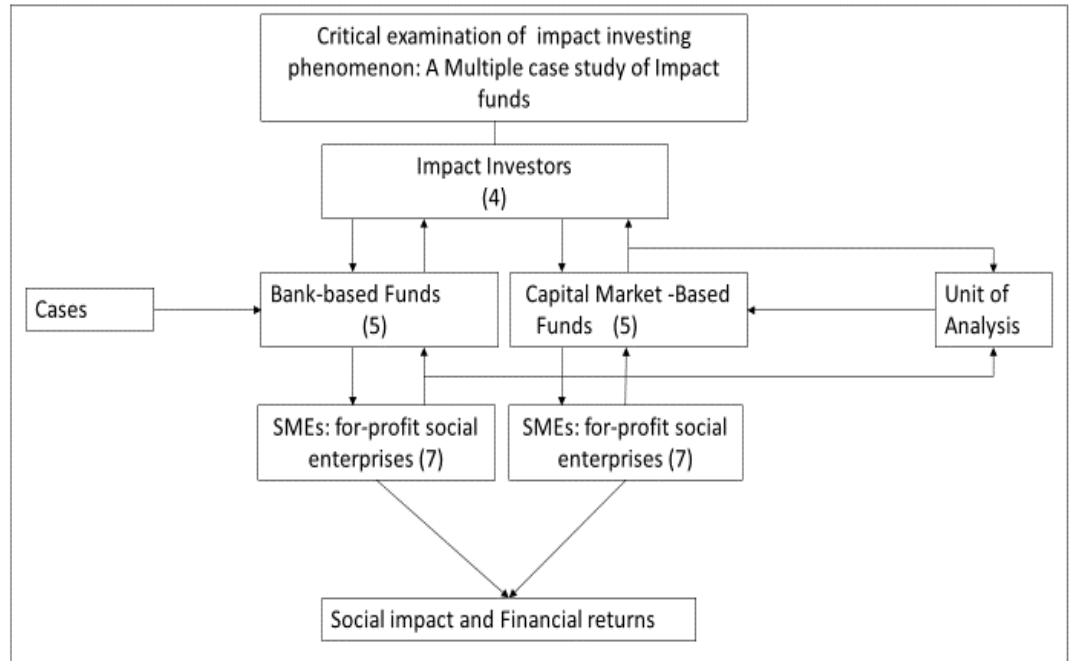
By cases, the study focuses on the narratives and pieces of evidence of bank-based and capital market-based impact fund managers as multiple cases complemented by sub-unit analysis of impact investors, investee SMEs and institutions in pursuit of social impact and financial returns. These multiple sets of cases were examined in a local context complemented by global context evidence from impact investors. Selecting Ghana as the research setting emerged based on the theoretical framework and literature review conducted in Chapter 2 in addition to the constraints of time and resources. Deciding to bound the study and determination of what constitutes a case, four options emerged based on a pilot study conducted in March 2017 and the theoretical framework developed in previous Chapter 2. The first option, Ghana, can be described as a case where the relationship involving bank-based-SME investee as well as capital market-based-SME investee could be investigated — focusing on governance and strategy change and outcome (social impact and financial returns). However, applying the developed

theoretical framework at the macro level using Ghana as a single holistic case might require some changes.

Also, a comparator of another developing country in the Sub Region or Sub Saharan Africa (SSA) would be required for cross-case comparison and analysis. Geographically the three regions of Greater Accra, Ashanti and Eastern qualified as a case where bank-based-SME investees and capital market-based funds-SME investees could be investigated applying the developed theoretical framework. Such geographic focus implies the need for representativeness of samples selected from these geographic territories and location of impact funds. The third category of impact funds and investee SME as a set of cases based on the theoretical framework also emerged. In adopting impact funds-SME investees as cases address one segment of the theoretical framework and ignore a vital segment which might not provide the full picture of the phenomenon under investigation. A final option, where impact investing phenomenon is examined within the research setting of Ghana and impact funds (bank-based and capital market-based) as two embedded case studies complemented by sub-unit of analysis of impact investors, investee SMEs and formal institutions. Such multiple units of analysis enable the application of the theoretical within a global context and local context for realising the social impact and financial returns in BoP communities.

The unit of analysis can be either an individual, family, role, small group, places, communities, specific events, organization, or a nation (Miles and Huberman, 1994; Yin, 2014). In this research, the unit of analysis focuses on bank-based funds and Capital Market-based funds. The sub-unit of analysis first addressed the interaction or relationship between the impact investor-fund manager level and fund manager- investee SME level in realising the social impact and financial returns. Formal institutional sub-unit of analysis complemented emerging evidence from an impact investor, impact funds, and investee SMEs. Succinctly put, the unit of analysis involved analysing governance, strategy change and impacts at the investor-fund manager level and fund manager-investee SME levels. Multiple units of analysis were adopted because it ensures useful application of the theoretical framework within the research context of Ghana and within the global context. Moreover, such analysis through case study facilitates theory elaboration and theory building (Miles and Huberman, 1994). Figure 4.1 illustrates a schematic diagram of a multiple case study of impact funds and sub-unit of analysis for the study as earlier elaborated.

Figure 4. 1 Schematic diagram of multiple embedded case study



Source: Authors illustration based on PhD fieldwork, 2018

An explanatory case study purpose is adopted involving two case study of bank-based and capital market-based funds within the research setting of Ghana with multiple units of analysis aimed at theory building or theory elaboration. As suggested by Yin (2014), different purposes of case study research could be observed. A descriptive case study purpose is to describe a phenomenon in its real-world context; exploratory purposes seek to identify the research questions and procedures necessary to explore a phenomenon in future research. Explanatory - explaining why some phenomenon came to be, and Evaluation- the purpose is to compare an intervention to an outcome of interest. It is in line with these purposes of case studies; a pilot research was conducted with an exploratory aim to uncover the actors in the field and test effectiveness of research instruments. Also, to identify research questions in the field, including 'how' and 'why' research questions focusing on the socially constructed nature of reality within the research setting of Ghana.

The pilot study enabled discovery of actors including impact investors, bank-based and capital market-based funds, investee SMEs, institutions both formal and informal. Such discovery shaped the research design in terms of a two-case

embedded (multiple units of analysis). The pilot study further shaped the research design by way of data collection methods adopted and data collection instruments which guaranteed success during the fieldwork. The purpose of adopting a two-case study for this research is to explain the influences bank-based and capital market-based funds on investee SMEs to realise the social impact and financial returns in BoP communities. Where influences are critically examined from governance, strategy change and impact perspectives. Perspectives of high growth, missing middle and established investee SMEs pursuing the dual goal of social impact and financial returns in BoP communities adds to the adoption of a two-case study design. To this end, an in-depth local context interaction between impact fund managers (bank-based and capital market-based) and investee SMEs are investigated. In applying and elaborating on the theoretical framework, the research seeks to uncover how the governance and strategies of bank-based and capital market-based institutions as agents of impact investors influence SMEs to realise the social impact and financial returns. Ultimately, the study seeks to provide a theoretical contribution in terms of theory building relating to governance mechanisms, strategy change and impacts that fund managers adopt to influence high growth and established SMEs to realise the social impact and financial returns.

4.3.3 Validity and Reliability

Criticism of case study research designs has focused on reliability, replicability, and validity from a positivist orientation. According to Yin (2014, p.45), underlisted tactics enable qualitative researchers using case study research designs to overcome critics:

- Construct validity- use multiple sources of evidence, establish a chain of evidence, have critical informants review draft report
- Internal Validity - do pattern matching, do explanation building, address rival explanations, use logic models
- External validity- use theory in single-case studies, use replication logic in multiple-case studies
- Reliability- use case study protocol, develop case study database

Twining et al., (2017, p. A7) defined data triangulation as “using data from different participants or in different settings; and method triangulation-using multiple methods to collect data”. Consistent with this definition, data collection for this PhD relied on multiple sources to achieve data triangulation (Twining et al., 2017), principally

primary and secondary sources. Primary sources include interviews with investors, bank and capital market-based fund managers, investee SMEs and institutions. Fieldwork notes from rapid participant observation of participants in their offices, visits to sites and informal chat with other employees uncovered the depth of information or otherwise from secondary sources for triangulation. Secondary sources of data were also collected from websites of investors, bank and capital market-based fund managers, SMEs, practitioner associations, academic research centres and publications from development finance institutions. Employing interviews, rapid participant observations and documentary methods of data collection accomplished methods triangulation (Twining et al., 2017). Section 4.6 evidence further details of multiple data sources and collection methods to achieve data and methods triangulation (Twining et al., 2017). Internal validity was addressed through different analytical techniques detailed in Section 4.7. Bank-based funds and SMEs as one set of cases and capital market-based funds and investee SMEs representing another set of cases were critically examined for differences and similarities through pattern matching aimed at towards theory building. Other cases within these two sets that displayed contrary pattern were also critically analysed for contrast in line with the suggestion by Yin (2014).

The rigorous application of this process of collecting data from different research participants and applying multiple methods of data collection, cross-checking interviews with fieldwork notes and reports obtained justifies external validity, through cross-case analysis of fund managers and SME investees. Further, adopting a non-probability purposive sampling technique discussed next, collecting, and analysing multiple sources of data, cross-checking of interview transcripts with fieldwork notes and analysed documents obtained from different sources about these sets of cases add to external validity evidence. Also, reliability details through a case study database are shown in Section 4.5. Suffice to add that inferences and generalisability of the findings are to the "theoretical propositions and not to the population of universes" (Baskarada, 2014, p. 8) in this study.

In summary, case study research design is appropriate to investigate the 'why' and 'how' about the influences of impact investment funds on investee SMEs through governance, strategy and impacts to realise the social impact and financial returns. This approach compared to the other designs that focus on quantification and frequencies of events occurrence, is suitable for theory building or development. The adopted sampling techniques are presented next.

4.4 Sampling Approach

Two broad categories of sampling techniques emerge in literature comprising probability and non-probability sampling methods (Miles and Huberman, 1994; Yin; 2014; Bryman and Bell, 2015). Probability sampling is a method where the probability of selecting each unit is random from the population as a sample (Miles and Huberman, 1994). A population represent total sample of case with a given criteria. The aim in probability sampling can be described as an effort to make inferences and a generalisation about the population based on the samples chosen for the study (Miles and Huberman, 1994; Easterby-Smith et al., 2008). Examples of probability sampling include pure random, systematic, stratified random and multistage cluster (Bryman and Bell, 2015). Non-probability sampling techniques, however, entails non-random selection of members of a population as samples or cases based on the researcher interest and cases are for theoretical rather than statistical generalisation (Miles and Huberman, 1994). Such approaches tend to be unique due to different conditions for case selection, e.g. specific questions, specific sites, and cases (Miles and Huberman, 1994).

In adopting a non-probability sampling approach, I do not aim at making generalisations of the study based on the sample but instead seeks to explore different perspectives from a range of individuals relevant to the research questions (Bryman and Bell, 2015). Non-Probability sampling techniques include purposive, convenient, snowballing, theoretical, opportunistic and stratified purposive. In purposive sampling, a researcher sets sample characteristics to check whether units meet such eligibility criteria and identifies them for inclusion (Bryman and Bell, 2015). Purposive sampling allows a choice of a case because it illustrates some feature or process of interest to a researcher. Convenient sampling is another non-probability sampling technique where participants are selected based on ease of access. Theoretical sampling technique involves the process of data collection, coding, and analysis in a continuous manner where decisions about sample size are made progressively until theoretical saturation (Eisenhardt and Graebner, 2007). Snowballing, also known as a referral, network or chain sampling (Bryman and Bell, 2015) involves identifying a unit that meets the eligibility criteria for inclusion and then asks for the recommendation of other units.

Conceptually case selections based on purposive sampling versus theoretical sampling approach have sometimes been viewed synonymously based

on the interest of the researcher in selecting sample cases. However, while purposive sampling selects sample cases or participants based on clearly defined parameters of a population, theoretical sampling case selection is instead based on theory and not defined a-priori. Miles and Huberman (1994) suggested that purposive sampling is adopted when there is a focus on the unique context of a case however when a case is easily accessible geographically and immediately, it becomes convenient sampling. Bryman and Bell (2015) viewed theoretical sampling as a form of purposive sampling deployed in the context of grounded theory. Theoretical saturation implies the successive selection of cases, and the collection of data through interviews or observations leads to repeated categories or themes with little need for further data collection (Bryman and Bell, 2015). Also, case selection in theoretical sampling focuses on samples that will either appropriately illuminate examples of the case or extend relationships and logic among the construct for theory testing, theory-building, and theory elaboration (Eisenhardt and Graebner, 2007). Selecting two cases through theoretical sampling are more based on theoretical reasons such as replication, an extension of theory, contrary replication and dropping of alternative explanations (Eisenhardt and Graebner, 2007; Yin, 2014). In view of the theoretical sampling approach, the study selected samples of a bank-based and capital market-based funds as two sets of cases toward theory development.

By way of sampling cases, I first conducted a pilot study in Ghana in March 2017 to test access to research participants. A non-probability sampling technique of convenient sampling because of easy access and snowballing sampling (referral, chain or network based on an initial sample) were deployed to access banks, capital market-based funds and SME investees. The outcome from the pilot study informed the sampling technique adopted during the actual PhD fieldwork and data collection. Based on the developed theoretical framework, a theoretical sampling of cases was utilised from an initial database of twenty bank-based institutions, ten capital market-based funds and twenty SME investees. As Yin (2014) pointed out, selection of cases should be related to the theoretical proposition of interest. For bank-based institutions, preliminary analysis of interviews and analysis of documentary evidence from the first two cases were revelatory, and differences emerged. The subsequent case also provided additional perspectives towards the theoretical framework and with evidence of consistency compared to the previous cases. The fourth case showed marginal differences and significant evidence similarities from the first two

cases. So, with the fourth case, a semblance of theoretical saturation started emerging. The last case, which was the fifth case confirmed theoretical saturation in virtually repeating the evidence emerging in the previous four cases consistent with Twining et al., (2017).

Similarly, with the capital market-based funds, the first three cases provided enough information on similarities and differences based on the theoretical framework. The fourth case had some unique characteristics and contextual factors, which varied from the previous three. This informed the further selection of the capital market-based cases for analysis in line with theoretical sampling techniques. Consequently, the fifth case selection facilitated replication logic of multi-case study approach. The last case, an exemplar showed theoretical saturation in providing similar evidence like all the previous cases.

For investee SME cases, purposive sampling technique was initially developed focusing on early-stage, high growth, established and missing middle SMEs in five geographical regions in Ghana. Research constraints of funding, logistics and time led to a revision of the geographical regions from five to three. Based on the evidence from the pilot study, interaction with fund managers and theoretical framework for the study, theoretical sampling technique was employed during the PhD fieldwork for selection of SME cases. SME investees cases provided instances of high growth, missing middle and established enterprises which had access to funds from bank-based institutions only, capital market-based funds only and others with experiences of both banks based and capital market-based institutions. This evidence and perspectives from managers of this high growth, missing middle and established businesses reached theoretical saturation where subsequent case selection added little information.

In all, an estimated number of ten bank-based funds, ten capital market-based funds and 25 SME investees initially constituted the sample size for the PhD project located in three geographical regions in Ghana. Ahlstrom and Bruton (2006) observed that after conducting 30 interviews, they reached theoretical saturation with no new concept emerging. In exploring informal microfinance institutions and development-led tourism entrepreneurship, Ngoasong and Kimbu (2016) sampled twelve enterprises for their study. Along a similar line, Ruebottom (2013) selected ten for-profit and non-profit social enterprises as samples to investigate microstructures of rhetorical strategy in social entrepreneurship. These qualitative

studies serve as illustrative examples of how theoretical saturation can be achieved during qualitative data collection. Consistent with Bryman and Bell (2015, p.431-432) definition of saturation where “successive interviews/observations have both formed the basis for the creation of a category and confirmed its importance and theoretical categories, the relevant categories”, the sample of 45 for this PhD was meant to achieve saturation. Development finance institutions and impact investors located globally were also selected through theoretical sampling technique to complement local contextual unit of analysis on impact investing in Ghana. I now address how access to research participants was secured in the next section.

4.5 Access to research participants

This section 4.5 present explanation on how I secured access to research participants through a pilot study and consequently PhD fieldwork. Challenges are also highlighted. Access to some research participants started from the pilot study conducted in March 2017 through pre-notification of participants that the researcher would return later in the year for PhD data collection. Key issues relating to access to research participants involves negotiation to gain entry to organizations, institutions or locations and participants for the study. Negotiating access to research participants occurs in two forms; discussion to access research participants and manoeuvring into positions for necessary data collection ease, requiring diplomacy and patience (Hammersley and Atkinson, 2007). For some of the bank-based participants, the researcher negotiated access first through former university colleagues at the undergraduate level currently working and holding middle-level management positions in these organizations. These key contacts then informed research participants who obliged to provide interview before email exchanges with attached PhD research information sheet, consent form and sample interview protocol. Table 4.4 details pre-fieldwork preparation.

Table 4. 4 Timelines to PhD data collection

Timelines	Activity	Goal and Outcome
March 2017	<ul style="list-style-type: none"> • Pilot study 	<ul style="list-style-type: none"> • To secure access to research participants and test data collection methods and tools. • To confirm the relevance of the research questions from impact investment fund managers and SMEs. • Secured access to 4 fund managers and SMEs for in-depth interviews during formal PhD fieldwork.
October - November 2017	<ul style="list-style-type: none"> • Pre-fieldwork preparation. Desk research and follow-up email exchanges 	<ul style="list-style-type: none"> • To develop potential list of research participants before fieldwork. • A list of 30 potential participants was developed from USAID FINGAP database. • Email correspondence to participants with attached information sheet, sample interview questions and consent forms were exchanged. • Use of informal networks to access bank-based participants.
December 2017	Contact with institutional research participants	<ul style="list-style-type: none"> • To obtain policymaking and institutional perspective to the study • Development of potential list of participants

Source: Authors illustration

4.5.1 Research Setting

Five regions in Ghana were initially designated as locations for the selection of participants due to the concentration of financial institutions and SMEs representing Ghana's industrial and economic structure (Aryeetey and Ahene, 2005). However, resource constraints meant a review of these regional locations without compromising the quality of information gathered. For completeness two criteria which informed the selection includes; a region with higher business concentration possesses unique opportunities and resources, making those regions investment attractive and venture set-up friendly. Also, financial institutions, through their relationship management and geographic spread locate in regions with higher business concentration for revenue generation and increased market share in Ghana. The selected regions correspond with Obeng et al., (2014) SME survey in which respondents emerged from these and other regions.

Two regions emerged with the most established businesses and spread of financial institutions, namely the Greater Accra Region and Ashanti Regions. So, impact investment funds, financial institutions and SMEs for the project were in these two regions. A third geographic area, the Eastern Region emerged during the data collection involving three high growth and established SMEs which had factory locations in the region with offices in the Greater Accra. Government of Ghana, Free Zones Authority, demarcated lands in the Eastern Region which formed a cluster of industries. Chapter 3 evidence detail characteristics of these regions. Figure 4.2 below shows the map of Ghana with the three Regions also shown.

Figure 4. 2 Map of Ghana



4.5.2 Study Participants and fieldwork

January - April 2018 – Practical challenges in gaining access occurred during the first few weeks of the fieldwork. Emails and telephone calls to bank-based officials and capital market-based fund managers were not replied or answered, respectively. To avoid cold calling at the offices of these participants, a couple of them replied that they were busy with annual reporting and other engagements. At an informal visit to a research participant at the Ministry of Finance and Economic Planning (MOFEP), the participant recommended the need for me to cold call these officials in their offices, which worked effectively. A research participant who was contacted and emailed concerning the fieldwork interview on the phone remarked: "apologies, I have not checked my email for that past one month because I have been out of the office". Ormiston et al. (2015) through semi-structured interviews lasting 60- 90 minutes examined how impact investors overcame challenges emerging from impact investing. Participants involved a representative of 10 organizations' in Australia, Europe, and USA.

Research participants interviewed comprised bank-based fund managers, capital market-based fund managers, SME investees and representative of Development Finance Institutions (DFIs) as impact investors in two phases. Phase one focused on the local context in identifying bank-based institutions, impact fund managers and SMEs in Ghana over a period from January 2018 to April 2018. Phase two started in the latter part of May 2018 focused on developing a potential list of 20 development finance institutions and networks within the impact investment space or sector at the global level. The phase two sought to provide a global perspective towards theory development and elaboration. Four representatives of DFI's were interviewed with each interview lasting 45-minutes for data triangulation. Interviews were conducted via telephone over the month of June 2018 and audio recorded for transcription.

Five bank-based fund institutions were interviewed, and in each of these banks, two participants were interviewed except one. Commercial banks in Ghana typically have organisational structures comprising the Board of Directors, executive management, departmental heads, middle management team, branch managers and operational staff. Relationship managers (RMs) who directly engage clients and constitute an advocate of clients at credit committee meetings. However, subtle differences emerge in some of the banks with Pan-African presence in terms of efficiency and scale, resulting in unique reporting lines among some management

members. For the purposes of this research, participants interviewed from bank-based institutions comprised departmental heads and relationship managers. On average, these research participants have worked in these institutions for more than ten years. Most of these departmental heads have previously held the role of relationship managers in their career progression. Interviews with bank-based fund managers on average lasted 70 to 90 minutes and audio recorded for transcription at the head office of these research participants. Secondary data in terms of reports, documents and flow chart illustrating issues emerging or comment from the interviews were collected from participants. Departmental heads were first interviewed and subsequently RMs on separate dates. Pictures of office location and building were taken. Fieldwork notes taken during the interview, and rapid participant observation was further developed at the end of the day. Interviews were held on separate dates for all research participants. All the bank-based fund managers were in the Greater Accra Region and have branch networks in all the 16 regions in Ghana.

Similarly, interviews with impact investment fund managers followed the same process. Impact investment or private equity funds typically have small member teams operating on the ground sourcing pipeline of deals for investment committee approvals. These entities have an average staff size of eight (8). Local funds have the entire team comprising the board of directors, CEO, and deputy and then investment manager with other investment analyst domiciled in the country. However, the foreign funds have head offices in the country of incorporation and the in-country team source and process deals for consideration at the head office level.

Regarding this study, the researcher gained access to both local and foreign impact funds located in the country and interviewed either the CEO/ Country manager or investment managers. In two of the funds, two research participants were interviewed. Interviews were audio-recorded, lasting for 70-90 minutes guided by an interview protocol. All the interviews were held in the offices of fund managers located in the Greater Accra Region. Some of the fund managers provided secondary data mainly brochures, leaflets, and other handbills for promotional activity. They were, however, reluctant to share even disguised confidential documents such as business plans, minutes of meeting with SMEs.

High growth, missing middle and established SME owner-managers who secured impact investment funds or financing from bank-based institutions were

interviewed in their offices lasting averagely 90 minutes and manufacturing sites to understand their operations. These interviews were held on different dates travelling across the country from Greater Accra to Ashanti Region and Eastern Region. Secondary data collected from participants were complemented with website information, reports from funders and case-studies conducted by the Global Impact Investing Network (GIIN). Fieldwork notes from rapid participant observations and pictures of operational sites, office building, nearby communities, creeds on notices, equipment and machines facilitated an in-depth understanding of these cases. In the absence of the founder or owner managers, the financial managers represent an alternative repository of company-wide knowledge. It is important to add that, it is not the number of interviews that matter however it is the attainment of theoretical saturation as established earlier in the chapter.

Table 4.5 and 4.6 provides a list of research participants interviewed for this study.

Table 4. 5 List of bank-based and capital market-based research participants

	Institution	Geographical location	Description	Position of participant(s)	Education
A Bank-based					
1	BBA001	Greater Accra	Commercial Bank rated in the top six banks	1. Head, Agri-business Unit 2. Relationship Manager	Masters and LLB MBA
2	BST002	Greater Accra	Top tier commercial bank	Head, Retail Banking	CFA and BSc Degree
3	BFI003	Greater Accra	Commercial bank within the top six banks	1. Head, Strategic Partnership 2. Relationship Manager	PhD Bachelor's Degree
4	BEC004	Greater Accra	Top tier commercial bank	1. Senior Accounts manager 2. Head, Digital Banking-Group level	MBA MBA
5	BCA005	Greater Accra	Indigenous growing bank	1. Deputy head, corporate banking 2. Senior Financial Manager	MBA MBA
B Capital Market					
6	CGF001	Greater Accra	Private equity and impact-oriented generalist fund	1. General Manager 2. Investment Manager	MBA
7	CIP002	Greater Accra	Private equity and impact-oriented generalist fund operating in 15 other African countries	Investment Manager	MBA
8	CIN003	Greater Accra	Private equity and impact-oriented agribusiness fund focusing on West Africa	CEO	MBA
9	COA004	Greater Accra	Private equity generalist fund focusing on Ghana and Cote D'Ivoire	1. Chief Operating Officer 2. Investment Manager	MBA MBA
10	CAC005	Greater Accra	Impact oriented generalist fund focusing on West Africa	Portfolio Manager	MBA
11	CJC006	Greater Accra	Financial inclusion focused fund	CEO	MSc and BA

Source: Authors illustration base on four months PhD Fieldwork

Table 4. 6 List of SME research participants

	Name	Geographical location	Description	Position of participant(s)
1	SPE001	Greater Accra	Off-grid energy distributor	Chief operations officer
2	SED002	Greater Accra	Produce and distribute fresh vegetables	CEO /Managing Director
3	SES003	Greater Accra	Agri-business technology provider	Country Managing Director
4	SIN004	Greater Accra	Microfinance institution	1. General Manager 2. Financial Controller
5	SGE005	Greater Accra	Distributor of soymilk products	CEO
6	SPS006	Greater Accra	Commerce and warehousing services	CEO
7	SYU007	Greater Accra	Producer and distributor of yoghurts	CEO
8	SFR008	Greater Accra	Producer and exporters of fruit concentrate	Co-founder/General Manager
9	SAG009	Ashanti Region	Manufacturer of animal feeds	Interim Management Committee Chairman/Accountant
10	SNR010	Ashanti Region	Rural community financial service provider and microfinance	Managing Director
11	SFA011	Ashanti Region	Producer of organic fertilizer	Co-founder/ Managing Director
12	SEU012	Ashanti Region	Manufacturing and agri-business	CEO
13	SLI013	Eastern Region	Distributor of fuel products	CEO
14	SBU014	Eastern Region	Manufacturer of roofing sheets and kitchen accessories	CEO
15	SG0015	Eastern Region	Producer and exporters of fresh pineapples	1. Financial Controller 2. Farm Manager

Source: Authors illustration based on four months PhD fieldwork

4.6 Data Collection Method

This section details the data collection approach, coding, and methods of data analysis. A qualitative data collection approach was applied involving primary data collection through a semi-structured interview protocol as data collection instrument/protocol to elicit information from participants. Also, rapid participant observation technique was adopted with details captured in fieldwork notes. Finally, secondary data through documents (reports, leaflets, brochures) were gathered. Based on the theoretical framework, investors, fund managers and SME owner-managers comprised the interview research participants. These research participants were key actors whose actions, decisions and interactions in a socially constructed manner influence the realisation of social impact and financial returns. Besides, regulatory and promoting institutional actors ensure stability within the financial and enterprise architecture. Previous social entrepreneurship studies examining different concepts for theory building have interviewed managers, entrepreneurs, and owner-managers as participants in exploring how they realise social impact (Kimbu and Ngoasong, 2016; Ruebottom, 2013; Zahra et al., 2009).

4.6.1 Primary Sources-Semi-structured interviews

Fieldwork for data collection in Ghana lasted four months from January 2018 to April 2018. All 44 formal and 3 informal interviews were conducted in the offices of bank-based institutions, capital market-based funds and SME investees. Also, interviews with regulatory institutions were carried out in their respective offices in the Greater Accra Region. Nine interviews were conducted with five (5) bank-based fund managers lasting 70-90 minutes with the aid of an interview guide at their head office location in Accra. These interviews were audio-recorded. For CMB fund managers, eight interviews were conducted with six (6) capital market-based funds for an average of 70 minutes face-to-face, audio-recorded and aided by an interview guide. Fifteen owner-managers and founders representing fifteen SMEs were interviewed averagely 90 minutes. Similarly, interviews with officials of regulatory and promoting institutions were on average, 60 minutes comprising five interviews. All these interviews were guided by an interview protocol developed before the fieldwork. And three interviews with employees of SMEs visited occurred at their sites. The interview protocol (attached as appendix 4a- 4d) was modified with additional questions based on feedback from supervisor's midway through the fieldwork and emerging themes from previous interviews.

Data were collected from three time periods. First, primary data sources were adopted to gather data from January 2018 to April 2018, representing four months of fieldwork. In exploring such emerging phenomenon as impact investing, the interaction and narratives of impact investors, fund managers and SMEs owner-managers as participants were valuable to significantly appreciate their building and dwelling modes of being (Leitch et al., 2013). Prominently, such interactions and descriptions align with the ontological and epistemological context of qualitative research methodology. In exploring the nuances of how impact investors through governance and strategy change influences impact funds and SMEs, an in-depth interview was conducted to source primary data. Three benefits emerged from adopting an interview as one of the data collection technique (Yin, 2014). Compared to other primary data collection approaches such as focus group and ethnography, in-depth interviews guaranteed an in-depth study of a phenomenon under investigation (Yin, 2014). To uncover themes and other salient factors from research participants, interviews permitted probing questions to be asked and follow-up questions for clarifications.

Second, interviews usually face-to-face allow researchers to observe the demeanour of research participants and comprehend when answers are not satisfactory. Finally, it guarantees detail information and account of how the relationship between contracting parties was managed effectively through illustrations and stories shared by research participants. Besides, considering the time constraints of participants, other primary data collection tools might be less useful compared to the interview. Finally, the in-depth interview provides a rich and exciting account for detail study which enable researchers to comprehend the objectives and phenomena under scrutiny in contrast to the count and classify approach in quantitative approaches (Bryman and Bell, 2015).

Rapid participant observation technique was also employed during the fieldwork visits to offices of impact fund managers, manufacturing sites of investee SMEs and farms of some of the enterprises. Rapid participant observation captured in field notes enabled identification of other themes not previously examined during the literature review. Rapid participant observation has been noted to be effective in researching small-size businesses (Kimbu and Ngoasong, 2016; Newby et al., 2003). The technique was helpful during informal visits to regulatory and promoting institutions, interaction with staffs of fund managers and investee SMEs to triangulate evidence obtained through an interview with participants.

Photographic evidence of factory locations, project sites, farms, office building as well as promotional tools in the offices of research participants provided additional observations captured in fieldwork notes. Emerging diagrams of operational activities of some of the investee SMEs demonstrated vital observations. Further details of what was observed during these interactions are presented in the empirical chapters and discussion.

Data collected on cases based on theoretical sampling were also discussed with supervisors' mid-way through the PhD fieldwork via skype interview and feedback through tracked comments on the status report. The first few interviews that were conducted were transcribed and discussed with the two PhD supervisors. Specifically, 15 representative interview transcripts (3 from entrepreneurs, 10 from fund managers and 2 informal interviews) were discussed. Given their expertise in the subject area and their knowledge of the research as supervisors, their comments were used to clarify gaps in the interviews that needed to be addressed in subsequent interviews. By following up on those gaps in later interviews as well as collecting data on the main interview questions, theoretical saturation was achieved as employed in a previous study (Ngoasong, 2018). In pursuit of the remaining interviews toward theoretical saturation, documentary evidence and other sources of data were collected.

4.6.2 Secondary Sources I-Documentary evidence

The secondary data sources were from documentary evidence — reports comprised financial statements and other investor reports. A wealth of data about the financial position of the banks, strategies adopted, and funding sources are usually captured in their annual financial statements. Strategically most banks in Ghana have positioned themselves as investor-friendly, so they always advertise their financial statements globally through their websites. However, listed banks on the Ghana Stock Exchange are obliged to submit these reports quarterly and annually in line with the listing rules, (GSE, 2018).

Concerning impact funds, their financial statements tend to be proprietary. Some of the documentary evidence about the background and history of these impact or private equity funds were captured in brochures and pamphlets. Besides, published reports on private equity growth in Africa from the African Private Equity and Venture Capital Association (AVCA) and others developed by development

finance institutions served as excellent sources of documentary evidence. For example, the private sector arms of development agencies provide information disclosure requirements, publish information on all funds and SMEs they have supported on their website. Also, reports developed to guide emerging impact, or private equity managers are publicly available to develop capacity in the sector.

4.6.3 Secondary Source II- Websites

The final source of data is a secondary data mainly from the websites of impact or private equity funds, development agencies, development finance institutions and Association of Venture Capital, Africa (AVCA). Additional data were sourced from websites of impact fund managers and development finance institutions which corroborated emerging themes from the interviews regarding governance and strategies of fund managers to influence SMEs for social impact and financial returns. Strategies relating to investment deal sizes, fund profile, sectoral focus, typical SME investees, deal structuring for social impact were sourced from impact reports, pamphlets, and websites which when combined facilitated triangulation between different data sources for data credibility (Ruebottom, 2013).

To complement data collection from primary participants, informal visits to government agencies connected to impact investing were undertaken for data triangulation, opportunities, and challenges within the institutional context. Perspectives of policymakers connected to impact investing in Ghana deepened the explanations provided by research participants. It also uncovered voids within the institutional and legislative landscape necessary for the development of impact investing. Some of these institutions comprise the Venture Capital Trust Fund (VCTF), GIMPA Centre for Impact Investing (GCII), Ghana Free Zones Authority, Securities and Exchange Commission (SEC), National Pensions Regulatory Authority (NPRA) and the Ministry of Finance and Economic Planning (MOFEP). Such visits informed contribution of this PhD research to policy in Ghana. Table 4.7 details institutional research participants interviewed and engaged during the visit.

Table 4. 7 Institutional participants, role, issues discussed and documentation type

Name of institution	Role of the research participant	Issues discussed	Documentation mode
Ministry of Finance and Economic Corporation	The Unit Head, African Development Bank	Government funding challenges with the emergence of impact investing	Tape recording and notes were taken. Issues requiring clarification were posed
Ministry of Finance and Economic Corporation	The Head, External Resource Mobilisation	Causes of low flows of ODA, growth of impact investing, the role of policymakers	Audiotape recording and notes taking
National Pensions Regulatory Authority	The Director, Policy Planning and Market Research	Role of pension funds for long-term financing of SMEs	Audio tape-recording and notes were taken. Observations and pictures of the location were captured.
Securities and Exchange Commission	The Head of Policy, Research and ICT	Regulations, financial system, private equity/VC funds, challenges of the institution	Audiotape recording and notes were taken. Pictures of office location
Ghana Free Zones Authority	Deputy Chief Executive, Corporate Affairs	Role of supporting export-oriented SMEs with dual objectives. Promotional role and opportunities for funders.	Tape recording and notes were taken.
Venture Capital Trust Fund	General Manager	Their role within the impact investing landscape, funding and capacity building.	Tape recording and notes taking

Source: Authors illustration from PhD fieldwork notes

Documentation of discussions through notes-taking provided sense-making of the context (Mason and Doherty, 2016) and issues under discussion with policy implementing institutions. Also, other issues which emerged during the interview were clarified and juxtaposed with bank-based and capital market-based fund

manager evidence. Data collection technique, instruments and other practices relating to ethical guidelines were pre-tested during the pilot study conducted in March 2017 before the actual PhD fieldwork.

4.7 Method of Data Analysis

Typically linking data to theoretical propositions and drawing inferences constitute analysis. Broadly Yin (2009, p. 126) suggest that that "data analysis consists of examining, categorising, tabulating, testing, or otherwise recombining evidence to draw empirically-based conclusions". In respect of this study, examining, tabulating, and categorising represented a series of processes in data reduction and coding to uncover critical concepts. I applied both deductive and inductive approach in the context of the theoretical framework. Moreover, data analysis described as a process through which "interpretation and inferences" (Twining et al. 2017, p. A6) are captured in search of "explanatory laws" (Stake, 1978, p.7) represents the second dimension of the analysis. To this end, in applying the theoretical framework within an empirical research setting of Ghana, inferences on governance, strategy change, and impacts emerged. Through the two case studies of bank-based and capital market-based funds, the phenomenon of impact investing as alternative financing to traditional funding represent explanatory laws. Impact funds comprising BBF and CMB represented two case studies and unit of analysis while impact investors, SMEs, institutions, and documents were sub-unit of analysis. Finally, O'Brien et al., (2014) also recommend that data analysis as a process should encapsulate methods of processing including data entry, transcription, data management and security, verification of data integrity, coding and anonymisation. Data analysis processes are documented in the following sub-sections.

4.7.1 Data reduction and coding

Drawing on the clarifications in section 4.7 on what constitutes data analysis, a five steps process of coding and analysis of the influences of impact funds on SMEs to realise the social impact and financial returns in BoP communities were carried out. Data coding and reduction draws on Miles, Huberman, and Saldana (2014) and Yin (2014) in the context of the developed theoretical framework. Three concepts of the theoretical framework comprised governance, strategy change and impact (social impact and financial returns). By governance, ownership, control, and board representation constituted theoretical dimensions. Another concept, including finance-first and impact-first from the theoretical framework were coded to explain

circumstances under which bank-based and capital market-based funds adopt such labels. The first step involved source organising of the corpus of data from research participants in Nvivo Pro 11. Three sources, namely interview transcripts, documentary evidence (reports, brochures, posters, and leaflets) and fieldwork notes from rapid participant observation, were imported into NVivo 11 Pro. The second step involved, coding of the data using low-level codes or first-order concepts under respondent type (e.g. bank-based, capital market-based, SMEs, Institutions, and DFIs). [The integrated theoretical framework informed the development of a coding scheme applied in data reduction and coding.](#)

Next step involved identifying second-order concepts or medium-level codes based on extant literature to further code and re-classify the first order codes. This analytic approach applies grouping and pattern matching, which promote data categorisation (Miles et al., 2014). Then the next step involved tabulation of the second-order concepts into an aggregated dimension which reflects concepts based on the theoretical framework on governance, strategy change and impacts. Empirical chapters 5 and 6 illustrate different tables on governance mechanisms at the investor-fund manager level and fund manager- investee SME level. The next step involved coding of participant responses to specific theoretical arguments and triangulating with secondary and rapid participant observations using critical phrases as codes. The codes aided analysis and allowed case illustrations to be noted as categories of observed constructs of the theoretical framework, especially for case descriptions (Yin, 2014).

The same processes were applied to uncover fund manager-SME investee relationship focusing on governance, strategy change and impacts. Keywords, phrases, and concepts were deductively coded as first-order concepts. These first-order concepts were examined critically, grouped, tabulated and re-classified to reflect similar concepts. Such an approach reflects the first part of Yin (2014) data analysis approach for cases. Based on recoding, reclassification, tabulation, and reference to previous literature, the first-order concepts were categorised and labelled with second-order concepts from literature. Tabulation of data in empirical chapters 5 and 6 include concepts of governance, strategy change, and impacts presented according to first-order, second order and third order aggregated dimensions. For example, the data structure of investor-bank-based fund manager governance is depicted in chapter 5, table 5.2. Similarly, table 6.4 of chapter 6 shows the data structure CMB-investee SME governance. Moreover, narratives reflecting

the theoretical dimensions of the framework are presented as a case illustration. Data reduction and coding applied abductive strategy involving both deductive and inductive analytic approach. Finally, the second-order concepts were aggregated to evidence the theoretical dimensions of the framework and arguments developed in the literature review deductively.

4.7.2 Adopted analysis methods

The study drew on different data analysis techniques with a focus on the research problem and research question in applying the theoretical framework. The research adopts a general analytic approach drawing on content analysis (Krippendorff, 2013), thematic analysis (Braun and Clarke, 2006) and narrative analysis based on pattern matching and case descriptions (Miles et al., 2014; Yin, 2014).

Qualitative content analysis is described as a method of analysis for systematically exploring textual data to identify patterns and structures emerging as themes (Krippendorff, 2013; Bryman and Bell, 2015). The objective is to determine the construct features of a phenomenon under investigation. Quantitative researchers apply content analysis for making inferences based on the frequency of occurrence. In adopting content analysis as part of data analysis for this study, theme discovery processes were more implicit compared to quantitative approaches. In addition to the coding in the previous section, the corpus of coded data from the three sources (documentary evidence, fieldwork notes from rapid participant observation, interview transcripts) were content analysed.

The content analysis sought to uncover evidence, circumstances, and conditions for categorising a fund as finance first and impact first. Moreover, evidence of influences at the impact-investor level and fund-manager-investee SME level from specific interview questions, documentary sources and fieldwork notes for triangulation in line with the theoretical framework. Extant literature (e.g. Moore et al., 2012; Ruebottom, 2013; Glänzel and Scheuerle, 2016) applied content analysis to identify themes and patterns deployed in empirical studies on impact investing and social entrepreneurship. Further, the research applied Braun and Clarke (2006) thematic analysis at another stage to uncover strategy change of bank-based and capital market-based fund managers in simultaneous pursuit of social impact and financial returns. Thematic analysis "is a method of identifying, analysing, and reporting patterns (themes) within a data.... and interprets various aspects of the topic" (Braun and Clarke, 2006, p.79). Due to the theoretical framework which informed the coding scheme, both deductive and inductive analytic

approaches representing "theoretical or deductive or top-down" and "inductive or bottom-up" were applied respectively (Braun and Clarke, 2006). Table 4.6 details Braun and Clarke (2006) six-phase thematic analysis approach.

Table 4. 8 Six stages thematic analytic framework

Phases of Thematic Analysis	
Phase	Description of the process
1 Familiarising yourself with your data	Transcribing data (if necessary), reading and re-reading the data, noting down your initial ideas.
2 Generating initial codes	Coding interesting features of the data in a systematic fashion across the entire data set, collating data relevant to each code.
3 Searching for themes	Collating codes into potential themes, gathering all data relevant to each potential theme.
4 Reviewing themes	Checking if the themes work with the coded extracts (Level 1) and the entire data set (level 2), generating a thematic 'map' of the analysis.
5 Defining and naming themes	Ongoing analysis to refine the specifics of each theme and the overall story the analysis tells, generating clear definitions, and names for each theme.
6 Producing the report	The final opportunity for analysis. Selection of vivid, compelling extract examples, the final analysis of selected extracts, relating of the analysis to the research question and literature, producing a scholarly report of the analysis.

Source: Adapted from Braun and Clarke (2006)

Processes of data reduction and coding approach elaborated in the previous section address the first three stages of Braun and Clarke (2006) thematic analysis framework. Engaging with the different corpus of for the study, a series of reading and re-reading occurred while coding relevant portions deductively and inductively. Emerging themes for specific dimensions of the theoretical framework and conditions of strategy change by bank-based and capital market-based fund managers were tabulated, and patterns matched. Other emergent issues from research participants and fieldwork notes through rapid participant observation relevant to policymakers and investors were also analysed. Themes definition and naming, which represents phase 4 and 5 of Braun and Clarke (2006) thematic analysis was carried out to determine evidences capturing salient parts of the theoretical framework. Finally, vivid examples and compelling narratives linked to literature resulted in the presentation of two empirical chapters on impact funds and investee SMEs for social impact and financial returns.

Miles, Huberman, and Saldana (2014) recommends that cross-case analysis have specific purposes in theory building. The study also adopted cross-case analysis, which consists of comparing the two case studies in empirical chapters 5 and 6. Because the study aims at theory generation or building as detailed in the literature review and section 4.2, Miles et al. (2014) approach to cross-case analysis was applied. In applying cross-case analysis as an analytic tool, for capturing similarities, differences, and unique contents from the two case studies. Further, a cross-case analysis approach has been evidenced in literature as catalytic in knowledge and theory development (Bruton et al., 2010). Cross case analysis also seeks to realise two critical goals, namely to "enhance transferability to another context" (Miles, Huberman and Saldana, 2014, p.101). Secondly, the cross-case analysis provides an opportunity for researchers to deepen understanding and explanation about a phenomenon under investigation. Especially where negative cases are identified which strengthen a theory through similarities and differences across cases (Miles, Huberman, and Saldana, 2014). Theory building aim of this study justify the application of cross-case analysis in undertaking the study. These two analytic approaches were finally applied to the study in explaining the phenomenon of impact investing through bank-based and capital market-based funds in two separate empirical chapters.

Two empirical chapters of data analysis comprising bank-based funds and investee SMEs representing Chapter 5 and Capital Market-Based funds and investee SMEs presented in Chapter 6 constitute two sets of cases. These two chapters constitute the outcome of data analysis from the data collection. Ethics issues are presented next explaining guidelines and requirements from the OU ethics approval committee.

4.8 Ethics Considerations

Ethics issue emerges in every business and management research in terms of researcher-participant relationship, access to research sites, manner of reporting research findings, and how overall implications of findings are disseminated to inform policy and practice. Bryman and Bell (2007) note ten ethical principles for research: no harm to participants; respecting the dignity of participants; seeking informed consent; privacy of research subjects; data confidentiality; protecting the anonymity of individuals or organisations; avoiding deception; declaration of affiliations; honesty and transparency; and avoidance of any misleading or false reporting of research findings. To conduct the study, I secured approval for ethics on two occasions for a pilot and PhD fieldwork. For the pilot study, an ethics clearance from the Open University Human Research Ethics Committee (HREC) dated 01/03/2017 referenced HREC/2017/2491/Lamptey/1 was granted for the study in March 2017. The purpose of the pilot was to test research instruments developed and subsequent fine-tuning during the primary fieldwork. [The pilot also allowed operationalising the testing of the research questions and data collections tools drawing on empirical papers from the impact investing discipline including Micchelucci \(2016\), and Glanzel and Sheuerle \(2016\).](#) An information sheet and consent form with anonymity clauses for the audio recording of the interview data were provided to participants during the pilot study. Emerging findings and evidence from the pilot study informed and enabled a refinement of the actual PhD fieldwork.

I applied and secured ethics clearance from the Open University Human Research Ethics Committee (HREC) throughout October and November 2017 for the PhD fieldwork. In applying, I provided salient information about research title and objectives. In terms of methodology for the study, I demonstrated that the research applies a qualitative case study design to understand and explain the influences of impact investment funds on investee SMEs. Expected number of research participants for data collection estimated was ten (10) bank-based fund managers, ten (10) capital market-based fund managers, twenty (20) investee SMEs and selected officials at institutions such as SEC, GIMPA, VCTF and NBSSI. I further elaborated on the participant recruitment procedure to involve the use of a database developed during the pilot study and referrals from fund managers and network of contacts with former colleagues. To show how consent will be secured from the research participant, I attached a consent form designed based on standardised

requirements from the Open University to the application. The form is attached at the appendix to this thesis.

Further, I submitted that data collection includes three geographic regions of Ghana, namely Greater Accra, Ashanti Region and Eastern at the offices and sites of research participants. Two essential published ethics and legal guidelines followed include the 'OU Ethics Principles for Research Involving Human Participants' and the 'OU Code of Practice for Research at the Open University'. In terms of data protection and information security, fieldwork notes were sealed, stored and in possession of the researcher. Digital data were kept in at least three formats online (OneDrive) at the OU, password protected on the OU desktop as well as fieldwork laptop in line with policy guidelines of the OU IT security policies and procedures. Audio recordings are anonymised during transcription, analysis, and writing up immediately after the interview. In anonymising the audio recordings and notes taken, I used unique codes for both participant and organisations were used. Other vital considerations including research data management, disseminating, and publishing research outcomes, deception, risk of harm and debriefing were all highlighted in the application.

The Open University HREC granted a favourable ethics opinion for the conduct of this PhD study referenced HREC/2686/Lamprey dated 23/11/2017 (Appendix 4e). The approval process required clarification on diverse issues, including anonymity of participants, informed consent, confidentiality, data management processes, as well as security of any confidential data. These issues were all addressed through e-mail correspondence with a member of the committee based on outcomes of their meetings.

While seeking the HREC ethics approval, I sought to ascertain any local context ethics approval board before conducting such a study in Ghana. E-mails were sent to the Bank of Ghana, Ministry of Finance and Economic Planning (MOFEP), Ministry of Trade and Industry and the response was contrary. Other research councils, such as the University of Ghana, were also contacted. However, it appeared that the remit of the study was outside the mandate of the institution. Other research ethics boards were more institution specific.

4.8.1 Participants Consent

I sought informed consent from all research participants in Ghana and officials of Development Finance Institutions representing impact investors for the study before data collection. Within the local context, research participants were given consent forms and information sheet prior to the scheduled meeting date. On arrival at the meeting venue, the researcher spent the first few minutes to recap the background of the study and how confidentiality, secrecy and anonymity were guaranteed. Participants were also informed about the audio recording of the interview before the signing of consent forms and the commencement of the interviews. There were instances where participants avoided the audio recording of the interview or avoided the entire interview. For example, a relationship manager at one of the bank-based fund managers upon initial agreement to grant interview hesitated on my arrival. She argued that in line with their banks' policy, "they do not talk" and only a designated department has the mandate to engage persons conducting academic research or media-related activities. I had to explain the study, explain the content of the consent form, and how anonymity will be provided during analysis and publication. Finally, she agreed to be audio-recorded because of the relationship with her boss, whom I had earlier interviewed. Another SME owner told me that he wanted to decline participation in the study after initial consent. He changed our meeting date with excuses on three occasions before the finally agreed date for the interviews.

While I have had the opportunity of working within the banking industry in Ghana, access to participants was obtained through informal channels based on trust with a network of professionals in the sector. Previous academic scholars (e.g. Mason and Doherty, 2016; Kimbu and Ngoasong, 2016) have effectively applied informal networks based on established trust to access research participants. Formal processes involved bureaucracy, and sometimes people assigned might not have credible information and knowledge about the research area. However, informal rules around trust are sometimes more credible than formal processes. Access to the bank-based fund managers was secured through an informal network of colleagues in different banks who provided e-mail and contacts of the participants for a follow-up. I had to reject a participant in one of the banks because, upon telephone conversation, I observed that she is a junior in the bank, and her information will not be credible. Sometimes informal channel of access has limits in

terms of the unwillingness of participants to snowball other participants for their insight in the same bank.

Bryman and Bell (2015) note, issues of privacy, confidentiality, and anonymity of research participants as individuals or organisations studied require clarifications and assurance to research participants. Privacy relates to control over others access to oneself and associated information or preservation of boundaries against giving protected information. While confidentiality concern agreements with a person or organisation about what will be done with their data, including legal constraints. Finally, anonymity is associated with ways of disguising research participants so that information provided could not be linked to the individuals or organisations (Miles et al., 2014, p. 63). Based on the previous issues on privacy, confidentiality and anonymity, the following actions were taken before fieldwork, during analysis and report writing. In terms of privacy, data obtained from research participants which were deemed confidential, example biographical data and role of participants within the organisation were all anonymised after the transcription of the interview data. Besides, secondary documentary evidence obtained was also anonymised using for example fund manager A, B and C with a prefix BBF and CMB for bank-based and capital market-based funds respectively.

Regarding assurance on data confidentiality, prior information was provided to research participants that the data would be utilised within an academic context and findings would be published in academic journals, conferences and ultimately research thesis toward the award of a doctoral degree to the investigator. Besides, research participants would be granted the opportunity to attend any conference within the local economy after the completion of the program. However, for any other usage of the data outside these defined contexts, participants would be engaged for their consent. To guarantee anonymity to respondents, the researcher developed a coding identifier for each participant before coding of the data. This identifier starts with a prefix to identify the distinguish institution, fund and SME. It was then followed by the first two letters in the name of the specific organisation as a case and ended with a three-digit number (i.e. 001,002, and 003). The idea is to guarantee anonymity and facilitate easier recall of the case during the coding and analysis. Also, within the text, transcripts, and other documentary evidence where names of individual research participants emerge, a pseudonym is used to anonymise the information.

Data protection and security measures were implemented through-out the fieldwork, analysis and writing-up. To this end, audio recordings of interviews were stored on a password-protected laptop of the researcher. Secondly, these interviews and transcribed data of research participants were uploaded unto the Open University One-Drive cloud-based desktop for data protection. Access to this data was only provided through the e-mail account and password of the research which guaranteed protection. Any fieldwork notes were securely protected in travelling bags of the researcher, enveloped and sealed. In conclusion, I obtained ethics approval for the study, which ensured that research participants provided appropriate information necessary for theory development for the study.

4.8.2 Fieldwork challenges and Reflexivity

As I was reflecting on the PhD fieldwork as someone with a network of contacts within the banking industry and officials at some institutions, there were challenges worth documenting for other research students to know. First, the need to follow-up on participants utilising the different medium of communication to ensure meeting agreed dates and venue. E-mail communication, which is useful in developed communities, does not work effectively in developing countries. I would not submit that it is cultural; however, many participants even though saw e-mails did not respond. I had to use informal networks via WhatsApp channel, mobile calls and send text messages to follow-up. In some instances, I drove to the offices of these research participants and waited to see them and agree on a suitable date for the interview. These were participants I interviewed earlier during my pilot in March 2017.

Second, sometimes, a researcher will only have one opportunity with a research participant, and you must go for it. One incident relates to a CEO of a capital market-based fund manager who had funding from CDC Group, UK. The CEO postponed the meeting for a late afternoon because of conflicting meeting times with an investee SMEs upon my arrival in their office. I left for another meeting and on my return encountered some traffic congestion. The administrator called that if I do not make the time, the CEO will not be available for about two months because of a purported foreign trip. I had to pack my car and hire a motorbike taxi to permeate the traffic congestion within 4 km distance for the interview meeting. The interview lasted for 45 minutes, and the fund manager had to jump unto skype meeting with some investors in the fund. I never had a second chance with this CEO until eight months later during discussion of preliminary findings.

Thirdly, a research student must prepare for any inconveniences during fieldwork involving a last-minute change of interview dates or venue. I travelled from Accra to Ashanti Region about 254.61 km journey for an interview. I got to the location of the research participant waited for about an hour. The participant informed me that due to a series of meetings, he could not grant me the interview. The next day, he is travelling to Accra for a meeting with some bankers. We then agreed to meet at the offices of the bank in Accra, so that we can interview after his meeting. I waited for two hours in the parking area opposite the bank. When I finally met the research participant, we must drive to a location and wait for him to take his lunch before the interview. The inconveniences were many, but I had to cope with the reality of fieldwork. It is essential to look out for different sources of data for triangulation.

I made a strenuous effort to avoid the imposition of my knowledge from banking to affect the data from research participants. On many occasions, I avoided informing bank-based fund managers about my knowledge and experience within the banking industry in Ghana. I sparingly used my previous insight to seek clarification, probe critically about an issue emerging during the interview or secondary data cited from literature. Such clarification helped to avoid potential bias and ask leading questions. I also focused most of the questions on themes, concepts, and arguments from the theoretical framework for the study. There were instances when I drew research participants' attention to events within Ghana's economy for them to clarify statements which appear contradictory.

4.9 Chapter summary and conclusion

The chapter aimed at detailing the research design, research philosophy, and strategy for investigating the influences of impact investment funds on SMEs in BoP communities. Where influences were examined from governance, strategy change and impact perspectives. The chapter further explained the sampling technique, how research participants were secured, data collection methods, sources of data, and analysis adopted for the corpus of data collected. The chapter finally shows compliance with ethics procedures and requirements before and after the PhD fieldwork in terms of anonymisation of personal and confidential data.

In summary, the study adopts an interpretivist ontology of social constructionism and subjectivist epistemology informed by critical realism. A qualitative case study design is employed to critically investigate how impact

investment funds through governance, strategy change and impact influence SMEs in BoP communities. A non-probability sampling technique of purposive, theoretical, and snowballing was utilised to access research participants for the PhD fieldwork.

Three key empirical impact investing studies influenced the adoption of a qualitative research design and the methods employed in this research. Michelucci (2016, pg.1) who studied social impact investment in Italy aimed at uncovering the characteristics of the market or ecosystem in the absence of enablers. The author adopted a qualitative case study method, data collection through primary sources including observation and semi-structured interviews; and secondary sources (e.g. documents). Similarly, to understand the social impact investment market in Germany, Glanzel and Sheuerle (2016) employed a qualitative case study approach, collecting data through in-depth interviews with different actors within the ecosystem. Earlier, Ormiston et al., (2015) who sought to map the global landscape of impact investing and understand the perceived challenges of investors employed participant observation, interviews, and documents as data collection methods. It is important to note that confidentiality, and the fiduciary nature of investors, fund managers and SME owners justify the adoption of qualitative case study design. Moreover, the probability of these actors providing superficial information using surveys further justify the importance of the methodological approach in this study.

Research participants comprised nine officials' bank-based funds, eight officials of CMB funds, 17-SME owners and managers, 4-officials of regulatory and promoting institutions and two officials of policymaking institutions during the PhD fieldwork. Interviews with four representatives of DFI's were subsequently conducted for investor perspectives. The fieldwork within the research setting of Ghana involved four months visit to offices of research participants in three Regions, namely Greater Accra, Ashanti and Eastern. The interviews lasted for 70- 90 minutes guided by a semi-structured interview guide, and rapid participant observation detailed in fieldwork notes. Secondary sources of data were also collected from research participants. Corpus of data collected were abductively coded and analysed based on the theoretical framework and data analysis methods of content, narrative and thematic analysis was applied.

Research methods for conducting academic studies have merits and demerits. The qualitative case study design method employed for this study has many benefits for understanding and explaining the phenomenon of impact

investing within the research setting of Ghana. Significant advantages of applying a case study research design are that it allows in-depth investigation of the phenomenon through critical analysis of interviews, rapid participant observation and documents to triangulate the data. The level of knowledge and understanding gathered on how impact fund managers use governance, strategy change and impacts to influence investee SMEs might not be unearthed through reports and secondary sources only. Second, the extent of confidentiality that impacts investors, fund managers, and SMEs analysed make qualitative case study the most appropriate research design to uncover the why and how of governance and strategy change among the participants in deliberate pursuit of social impact and financial returns in Ghana. Data gathering techniques of interviews, rapid participant observation and documents from secondary sources permitted cross-checking of data. Moreover, confirmation of preliminary findings post-analysis from fund managers and SME participants promoted the reliability and validity of findings.

A significant criticism of qualitative research design is the small sample size compared to the quantitative research approach. Because the study does not aim at the generalisation of the findings to the general population, it does not affect the reliability, credibility, and external validity of the study. More importantly, theoretical sampling approach adopted meant sample of participants selected were based on evidence obtained from previous participants to the point of theoretical saturation. The research setting of Ghana, which has many similarities with many countries in Africa and even South Asia, warrants the possibility of extending the findings across context from an ontological and epistemological perspectives is an added advantage. Twining et al. (2017) submit plausibility of extending qualitative research findings to context or settings like the context of the study. Critics of quantitative study will, however, raise the issue of how the study demonstrated the evidence of effects beyond examples and case descriptions which reflect the theoretical framework. Empirical chapter 5 is presented next about the analysis of bank-based funds and investee SMEs.

CHAPTER 5

Analysis of Bank-Based Funds and SME investees

5.1 Introduction

The objective of this chapter is to present analysis and findings concerning the influences of Bank-based impact funds (BBF) on SMEs, viewing influence in terms of governance, strategy change and impacts (social and financial returns). In applying the framework, the chapter present detail findings on governance at the investor-fund manager level and fund manager-SME investee levels. Subsequently, findings on strategy change and alignment at the investor-fund manager level and fund-manager-SME investee level. Investor-fund manager level evidences the relevance of the theoretical framework in a global context and facilitates its application within the African context. Similarly, fund-manager-SME investee level showcases the local context-specific dimensions of the theoretical framework and possible extension to the regional context. Suffice to add that the case study in this chapter is a single holistic case study of bank-based impact investments in Ghana with multiple units of analysis.

Emerging evidence on the analysis of investor-BBF governance revealed two fundamental mechanisms, namely control and monitoring. Based on the five bank-based fund managers analysed, impact investor funding was typically debt for on-lending to SMEs in different sectors operating in BoP communities. Because of the structure of bank-based funds, contractual agreements with impact investors resulted in governance control mechanisms stipulated in legal agreements between the parties. The control dimension of governance required bank-based fund managers to fulfil performance indicators (qualitative and quantitative), financing and compliance-related covenants extensively analysed in Subsection 5.2.2. Monitoring emerged as the second governance mechanism concerning investor-fund manager relationship. Monitoring governance mechanisms were enforced through reporting (financial and non-financial), quarterly certification of the loan portfolio for sectors agreed and percentages allocated, independent third-party verification and annual visits. Impact investors (mainly DFI's) as a source of long-term funding for bank-based fund managers made monitoring a crucial governance mechanism.

Bank-based fund manager - investee SME governance also revealed control and monitoring mechanisms. It also emerged that pre-financing approval processes of bank-based fund managers had embedded governance checks which scrutinize SMEs before the deployment of post financing control and monitoring mechanisms. BBF managers mainly deploy debt financial instruments to support SMEs, which does not accrue the rights for ownership interest and board representation on the boards of SMEs supported. All the five bank-based fund managers based on the analysis presented in Sub-section 5.3.2 confirmed the adoption and application of control and monitoring as the important governance mechanism for the contractual relationship with SMEs financed before and after the emergence of impact investing. Bank-based fund manager C, however, claimed that the organisational structure of the bank created a limitation for effective monitoring of SMEs supported in search of social impact and financial returns.

The analysis presented on strategy change shows evidence at the impact investor-fund manager level and fund manager-SME investee level. Evidence uncovered that bank-based fund managers changed their strategies and attracted impact investing capital. Strategy change of bank-based fund managers at the investor level facilitated collaborative funding of SMEs, access to long-term capital, and catalytic effect of SME financing and exclusive social sector capital initiatives. With capital access at the investor level, bank-based fund managers consequently changed their strategy regarding the funding of SMEs in BoP communities. Evidence revealed four conditions of how strategy change influences of bank-based fund managers on SMEs financed in simultaneous pursuit of social impact and financial returns. Also, evidence of the 'how' of strategy change include linking MNCs, SMEs and farmers in BoP communities, social sector SME financing, promoting financial inclusion, and facilitation of agri-business in Ghana. Evidence also emerged from the strategy change of SMEs as a for-profit social enterprise in BoP communities. Such SMEs had access to subsidised and guaranteed funding, technical assistance support, experienced growth and impact, legitimised their business and accessed alternative funding. Social impact and financial returns represent expected outcomes from impact investors. Evidence of financial returns uncovered includes generating enough cashflows, profitability, turnover and growth to meet the needs of key stakeholders. Social impact evidence revealed job creation, out-grower schemes to facilitate market access, corporate social responsibility initiatives and health improvement. Both bank-based fund managers

and SME owners viewed their role as agents in finding solutions to societal problems.

Bank-based and SME analysis evidence emerging from the corpus of data collected, coded, analysed are presented in different sections of this empirical chapter to achieve the objectives and research questions in Section 1.3. However, before presenting the analysis in the respective sub-sections, summaries of evidence gathered and analysed are presented to facilitate understanding of the subsequent sections. An emerging theory based on the application of the integrated framework within the bank-based setting in a diagrammatic form about the big picture of this chapter enables clarity on the detailed analysis presented in later sections of the chapter. Besides, conceptual clarification is essential to guide readers concerning explanations adduced in the analysis presented.

The rest of chapter section is structured as follows: Section 5.2 provides a summary of the theoretical argument that emerges from analysing the governance, structure and strategy deployed by Bank-based funds that invest in SMEs in Ghana. Accurately, it depicts the governance mechanisms employed at the investor-fund manager level, as well as fund manager-investee SME level. Further shows the structure of a fund and strategy change evidence at the investor-fund manager level as well as fund manager-investee level in deliberate pursuit of dual goals. All these are elaborated in subsequent sections of the chapter. Section 5.3 details evidence on governance influences at the investor-bank-based level and how bank-based fund managers influence SMEs financed through governance mechanisms. Section 5.4 presents analyses of strategy change of bank-based fund managers and SME investees in pursuit of dual objectives of social impact and financial returns. Specifically, it examines strategy change or alignment at the investor-BBF level, then proceeds to consider BBF- SME evidence. Section 5.5 focused on impacts comprising analysis, presentation and evidence on social impact and financial returns. Section 5.6 concludes the chapter highlighting the various findings from the preceding sections and subsections.

5.2 The Governance, Structure and Strategy Change of Bank-based fund managers

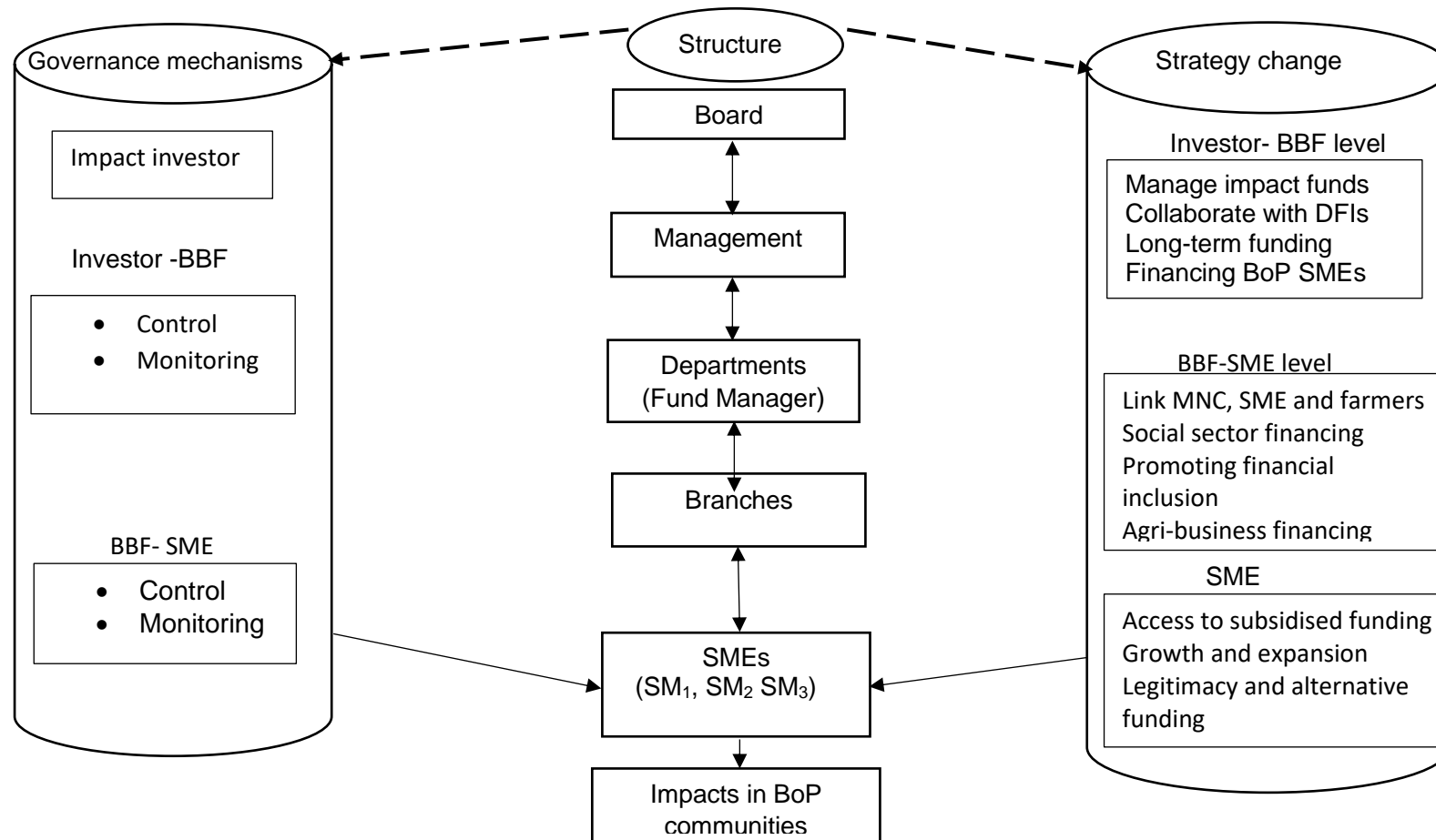
Governance, structure, and strategy change of bank-based fund managers are distinct from other fund managers such as venture capital and private equity funds. Because of this, an overview of bank-based funds and where they situate

within a commercial bank provides the context of analysis. Bank-based funds from the corpus of data analysed represent funds managed by Universal or Commercial banks in developing countries or middle-income countries, including Ghana. These managed funds tend to be earmarked for specific sectors or categories of SMEs. For example, BBF manager A and C represent the commercial banks managing funds targeting high growth potential and medium-size enterprises in export-oriented agri-business. Similarly, BBF manager D disburses \$2 million revolving funds targeting small and high growth potential SMEs with dual objectives of social impact and financial returns in the healthcare sector. A major distinguishing feature of bank-based funds is that they are managed on behalf of investors for specific purpose autonomous from intermediated funds from the public. Also, bank-based funds are distinct from a commercial bank's capital base secured through financial intermediation.

Intermediation means commercial banks accepting deposits from the public and lending same to deficit units such as individuals, firms or businesses and government. Three of the commercial banks with assets under management have foreign ownership with the remaining two indigenously owned. Based on the PriceWaterhouseCoopers (PWC¹) annual banking survey, four of these commercial banks ranks in the top-six rating in Ghana over the past three years. Figure 5.1 below shows an emerging theory of the governance, structure and strategy change of bank-based manager and investee SMEs. The figure essentially theorises the nature of governance influences at the impact investor-BBF manager level and BBF manager-SME level to realise the expected impacts. Structure of a commercial bank and designation of fund manager in these institutions is critical to understanding how SMEs pursuing dual goals are governed, and strategy change adopted to simultaneously realise social impact and financial returns.

¹ PWC is a global accounting and consulting firm that annually conduct banking survey in Ghana ranking commercial banks according to capital, asset quality, profitability and other indicators.

Figure 5. 1 Governance, Structure and Strategy Change of Bank-based fund Manager



Source: Theorising the influences of bank-based funds on SMEs, based on authors' analysis of governance, strategy change and impacts.

From the [above figure 5.1](#), a commercial bank typically has a board of directors and the structure shows the reporting line from the board to branch managers. The management team under the leadership of CEO or Managing Director report to the board. Below the executive management team are the departmental positions (e.g. Foreign Banking, Marketing, Treasury, Human Resource, Compliance, Audit and Internal Control, Finance and Accounting, Corporate and Institutional Banking, Commercial/Retail Banking). [Building on the integrated theoretical framework outlined in Section 2.8](#), three main theories from the different sets of disciplines are applied in theorising the influences of bank-based fund managers on SMEs financed based on governance, strategy change and impacts. Agency theory of governance from financial intermediation and enterprise/SME financing, strategic adaptation/alignment theory from strategic management discipline, and impact investing and social entrepreneurship theory from their respective disciplines were applied.

The dotted arrow ($\text{---} \rightarrow$) shows that based on an impact investment strategy change by bank-based fund manager [reflecting strategic adaptation theory to access capital presented to an impact investor](#), a governance mechanism is deployed by the impact investor to realise impact objectives. [The emerging investor-fund manager relationship results in a principal-agent relationship which leads to agency theory of governance mechanisms](#). Control and monitoring governance mechanisms emerge as two main post-financing mechanism deployed by impact investors to influence BBF managers at the investor-fund manager level shown in figure 5.1. A third governance mechanism which is pre-approval processes also as emerged elaborated in Section 5.3. [Strategy change of bank-based fund managers at the investor level in line with strategic adaption/alignment theory facilitated collaborative funding of SMEs, access to long-term capital, and a catalytic effect of SME financing and exclusive social sector capital initiatives exhibited in figure 5.1](#). Similar governance mechanisms, namely pre-approval, control and monitoring are applied at the BBF-SME level to realise social impact and financial returns. Based on an impact investment strategy change presented and agreed at the investor-fund manager level, the ‘how’ of an impact investment strategy implemented at the BBF-SME level is based on social entrepreneurship. Thus, BBF managers that hitherto were agents of private wealth creation, through strategy change linked MNCs to SMEs and farmers. Also, findings regarding strategy change reflect integrated, embedded, complementary and stand-alone models of realising the deliberate

social impact and financial returns based on social entrepreneurship theory. High growth, missing middle and established SMEs that adopted an impact investment strategy integrating social impact and financial returns in their strategic and operational processes secured subsidised funding, achieved growth, expansion, and legitimacy. It is the interaction of governance mechanisms and strategy change by BBF managers on SMEs which ensure the social transformation in the BoP communities as impacts building on the impact investment theory. This is shown from the two arrows (—→) from governance and strategy change interconnecting with SMEs resulting in impacts evidencing cause-effect relationship in figure 5.1. Thus, an impact investment strategy change, and governance mechanism are interconnected and applied based on agreement between impact investors and bank-based fund managers at two levels. From a governance perspective, executive management would typically engage impact investors to manage a specific fund. Impact investor conduct due diligence and approves the request after satisfactory compliance with conditions precedent. The executive management team seeks board ratification for any agreed fund to be managed. These interactions occur at the investor- BBF manager level adopting control and monitoring as the post disbursement governance mechanism.

The actual management of the fund resides with a department. Given dual control and liquidity management within a banking institution, the treasury department generally manages the fund. However, fund disbursers described as bank-based fund manager comprise a unit or desk under the Commercial or Corporate Banking department depending on the size of transactions and target sectors. The interaction exists between the two the treasury and the BBF department disbursing the fund. It is in line with this evidence that the bank-based fund manager has been depicted under departments in Figure 5.1 above. Proceeding from that, branch networks of these commercial banks constitute the distribution channel and point of contacts with SMEs who deliver outcomes in BoP communities. Governance at the BBF-SME investee level comprises control and monitoring. Strategy change dimensions also evidence bank-based fund managers positioning themselves as a reliable channel for impact funds. Extant literature showed that impact investors (finance first and impact first) deploy capital to SMEs through different channels in developing countries (Ormiston et al., 2015). Bank-based fund managers represent one of the principal intermediaries in developing

countries that impact investors utilise as partners to realise the expected impact in BoP communities.

For this reason, bank-based fund managers engage DFI's for SME funding and other social sector funding initiatives with the developmental outcome which reflect investor-bank-based fund manager level. Strategy change at the fund manager-SME level was analysed and how SMEs have realised expected objectives through strategy change. Finally, the interaction of governance, structure and strategy change with the emergence of impact investing result in impacts of social impact and financial returns in BoP communities. Commercial banks constitute key financial intermediaries and source of external funding to different categories of SMEs in many developing countries (Beck, 2013; Wang, 2016). With an undeveloped capital market, the distribution network of the commercial bank makes them attractive to impact investors. Evidence and findings from this data analysis focus on five commercial banks in Ghana managing unique impact investment funds targeting missing middle, high growth potential as well as established SMEs in different sectors of the economy aimed at realising impact. These commercial banks by law, capital requirement, asset-based, portfolio and profitability growth rates are distinct from Savings and Loans companies and microfinance institutions (MFI). The two latter institutions represent lower-tiered financial institutions within the bank-based system. Thus, Savings and Loans companies and MFI's in the context of this research are categorised as high-growth and established SMEs operating in the financial services sector.

Finance first and impact-first represent two categories of impact investors uncovered in the literature review. The type and sources of impact investment fund have an implication on how these funds are managed. Fund sources from either finance first or impact first investors entails unique modalities and guidelines on funds under management and weighing on BBF manager strategy. Also, BBF manager as intermediaries for supporting SMEs in BoP communities affect the anticipated dual goals of social impact and financial returns expectations of impact investors. BBF managers typically designated themselves as finance first due to shareholder wealth maximisation from the corpus of analysed data. Overall, Table 5.1 showed five empirical conditions under which a bank-based fund can be described as finance first or impact first.

Table 5. 1 Bank-based fund descriptors as finance first and Impact first.

	Description	Finance first	Impact first
1	Funding sources	Intermediated or Own capital	Collaborative capital for specific sectors
2	Funding purpose	Liquidity management	The market building, i.e. climate change, renewable energy
3	Returns expectation	Maximize shareholder value	A minimum threshold of financial return and high impact
4	Nature of investment	Equity or debt for capital base improvement or portfolio expansion	Pure social sector funding
5	Outcomes / Impact expected	Purely commercial	Hybrid, financial returns, and social impact

Source: Authors illustration from PhD data analysis

All the five bank-based fund managers had previously managed different kinds of funds targeting SMEs in exports, agriculture, or generally developmental-driven sectors. Fund manager C and D had a fund under management representing impact first fund. BBF C disbursed to high growth and medium-size enterprises in agri-business while BBF D targeted small and established SMEs in health, water and sanitation sectors. Fund manager E also had a fund targeting women-owned businesses in different sectors. However, as a financial institution, a description of impact first appears not to permeate the entire organisation.

Moreover, for all these bank-based fund managers, whether they are managing an impact fund or deploying their funds to support SMEs, financial returns-first was a pre-requisite in their loan appraisal and approval processes. Fund manager A and B relied on intermediated funds reflecting more of finance first. These fund managers supported the high-growth and established SMEs in agri-business sectors, finance, and commerce. All the five bank-based respondents, when engaged with the question, answered in the affirmative that they need to be financially sustainable before any impact consideration. Responses to the question ranged from phrases such as “*money for our shareholders*” (BBF Manager A) to “*profit-first*” (BBF Manager E) and “*assess risk, give loans and get it back*” (BBF Manager). A few interview extracts illustrated respondent views on finance first versus impact first below:

“The first objective for any commercial bank is profit... As a bank, it is finance first”- (BBF Manager A)

"we as a business we are set up to make a profit, and I do not think there are any apologies for that"- (BBF Manager B)

"We are finance first, money first that is the whole idea"- (BBF Manager D)

In summary, for BBF managers, the dichotomy or otherwise of finance first or impact appear somehow immaterial because their core ethos of providing financial services remains unchanged irrespective of the type or source of funding available. Bank-based fund managers, therefore, view the dual goal of financial returns and social impact sequentially and not necessarily simultaneously. Moreover, in circumstances where impact investors have guaranteed percentage of funding to SMEs, bank-based fund managers ensure that financing provided to enterprises were fully recovered.

5.3 Nature of Governance mechanisms

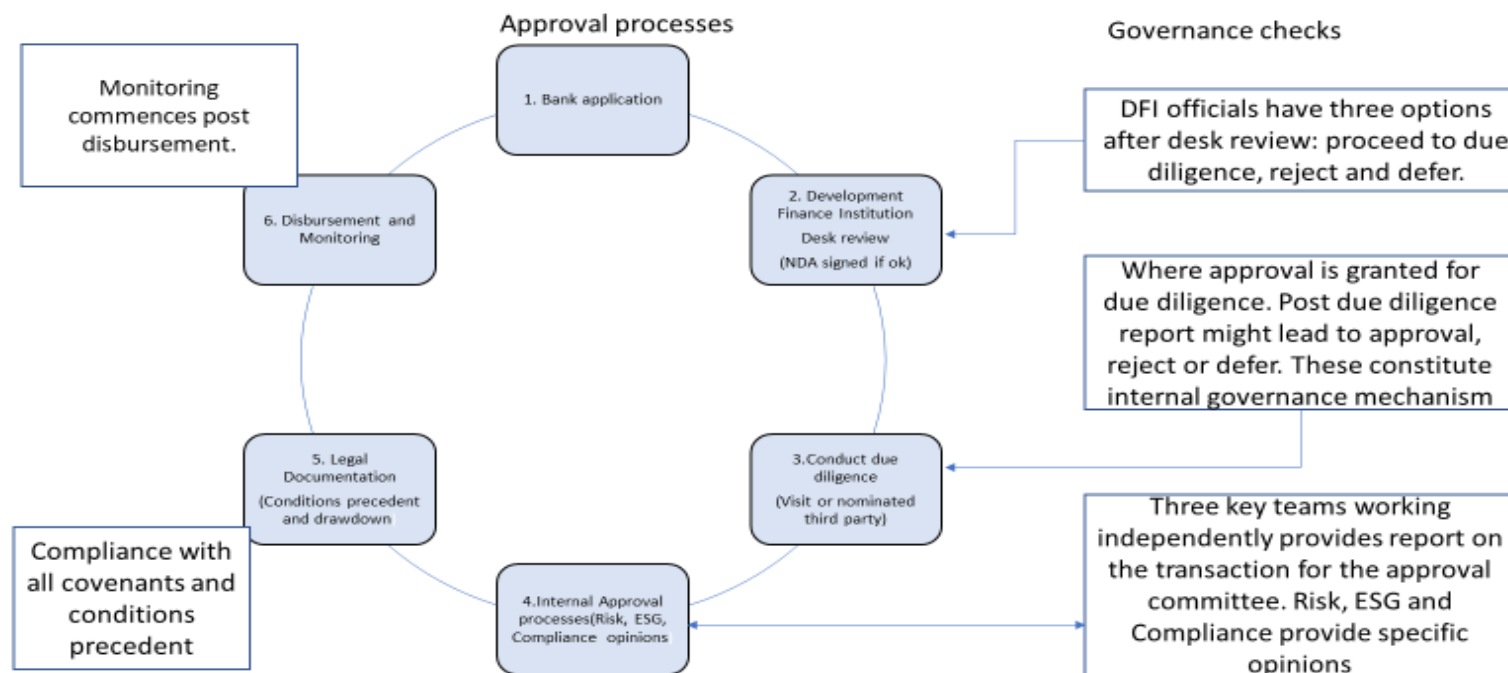
5.3.1 Dimensions of governance

Bank-based fund manager influences on SMEs to realise the social impact and financial returns empirically transpire in different forms. From the corpus of analysed data, internal governance mechanism of the bank-based fund represents key influences on SMEs. However, to understand and explain how bank-based fund managers govern the relationship with SMEs, insight into investor-bank-based fund governance would be essential. In other words, impact investor influences on bank-based fund managers through governance reflected in how fund managers govern SMEs financed. The analysis presented evidence about the nature of governance at the investor-fund manager level and fund-manager- SME investee level. Two main governance mechanisms uncovered from the analysis comprised control and monitoring governance dimensions which reflect and differs from the theoretical framework. From sub-section 2.8.1, the theoretical framework exemplifies ownership, control, and board representation as to the governance mechanisms. However, the analysis showed control and monitoring as the primary governance mechanisms deployed by bank-based funds. The objectives of adopting such governance mechanisms are to ensure established, and high growth SMEs financed with dual goals accomplish social impact and financial returns.

5.3.2 Nature of Investor- Bank-based fund manager Governance

Theoretically impact investors channelling funds through bank-based funds deploy governance mechanism of ownership, control, and board representation to influence bank-based fund managers. Equity investments permit ownership stake and board representation, however, not for debt funds. Emerging from the analysis of data collected on impact investors and bank-based fund managers, ownership stake through equity and board representation is more of an exception than the norm. All the five bank-based funds analysed show evidence of debt funds and other managed funds channelled through these institutions for SMEs to realise anticipated objectives. Governance mechanism of pre-approval process, control embed in agreements and post financing monitoring emerged. Moreover, these mechanisms permeated through their pre- and post-funding processes. Through financing approval processes, impact investors have embedded governance mechanisms to mitigate risk and ensure that bank-based fund managers selected fulfils the expected mandate. Figure 5.2 provides information on the pre-approval governance mechanism that impact investors deploy to govern their relationship with bank-based fund managers.

Figure 5.2 Pre- approval governance mechanism



Source: Authors illustration from PhD data

In terms of governance mechanism of control, the analysis showed that impact investors through contractual agreement influence bank-based fund managers. These contracts encapsulate covenants which are agreed on before funds drawdown. Some of the interview transcripts elucidated the control dimension of governance.

“some of them also would give you certain limits that this you cannot exceed this limit in terms of maybe alcohol”- (BBF Manager E)

“...if you want to fund them; you cannot exceed this limit. They limit such products in terms of covenants that we have with them”- (BBF Manager E)

Table 5.2 depicts the data structure of investor - bank-based fund governance. Analysis of the available corpus of data comprising interview transcripts, annual financial reports, website information from investors and bank-based institutions reveal first-order concepts and second-order concepts culminating in aggregated theoretical dimensions. First-order concepts comprised contractual covenants, quarterly and annual performance information on portfolio quality, highlights, and details of reports to be shared, processes for remedying breaches and certified information disclosure. These first-order concepts were subsequently analysed, relating them to existing literature to uncover four second-order concepts. The four second-order concepts include financing related covenants, performance-related milestones, reporting requirements and related compliance conditions. These four second-order concepts were theoretically aggregated to constitute the governance mechanism of control.

Table 5. 2 Data structure of investor- bank-based fund governance

First Order Concepts	Second Order	Aggregated dimensions
Contractual covenants, facility terms and conditions; lead and projected lag measures; pre-draw down conditions, i.e. sub-loan list and amounts.	Financing related covenants	
Weekly, monthly, quarterly, and annual performance ratios on portfolio and quality	Performance-related milestones	
Reports, highlight variances, share reports with co-financier, sub-loan reports pre and post disbursement	Reporting requirements	Control
Ensure covenants fulfilment, remedies to breaches; loan utilisation for a specific purpose; certified information disclosure; adherence to agreed covenants; those things are being respected.	Compliance conditions	
Field and office visit; sample client visit; independent-party assessment; certified audit of an existing portfolio.	Due diligence	Monitoring
Accountability and tracking of results; the celebration of milestones achieved; Accurate and reliable information flow; qualitative indicators	Development-related reports	
Periodic financial results; hard information analysis; check for variance; quarterly and semi-annual reviews	Financial reporting	
Processes audit; Secure facility repayment; liquidity measures; assets and liability risk analysis;	Risk-mitigating measures	

Source: Authors illustration from collected data

Monitoring constitutes an essential and operational governance mechanism deployed by impact investors to govern their relationship with bank-based fund managers to realise expected outcomes of social impact and financial returns. Based on the corpus of data analysed, monitoring, which is an aggregated

governance dimension emerged after analysis of first and second-order concepts. Table 5.2 above depicts the first and second-order concepts. First-order concepts included field visit, independent-party assessment, and certified audit of an existing portfolio; and more; follow-up on facility repayment, measures of liquidity indicators, assets and liability analysis. These first-order concepts were subsequently analysed based on the theoretical review to determine four second-order concepts — pre-approval due diligence, development-related reports, and financial reporting and risk-mitigating measures. Altogether, the four second-order concepts were analysed to constitute the governance mechanism of monitoring.

When the question of how impact investors govern the relationship with bank-based fund managers was posed, respondents provided phrases including: For investor C, the governance mechanism of monitoring is essential because *"we want to see where the loans went just to ensure that our money is being used for the stated purpose"* (Impact Investor C)

Moreover, these purposes are established for ease of monitoring as indicated by bank-based fund manager D

"some of these funds are for specific purposes, and some are for general purposes" (BBF manager D).

Additionally, fund manager B noted the role of monitoring and accountability exerted by impact investors. *"it is a combination of at their end, monitoring and ensuring that we are executing the lead measures and we are also reporting the lag measures accurately without any manipulation of figures. So, there is a lot of accountability and tracking of progress from the development organisations"* (BBF manager B)

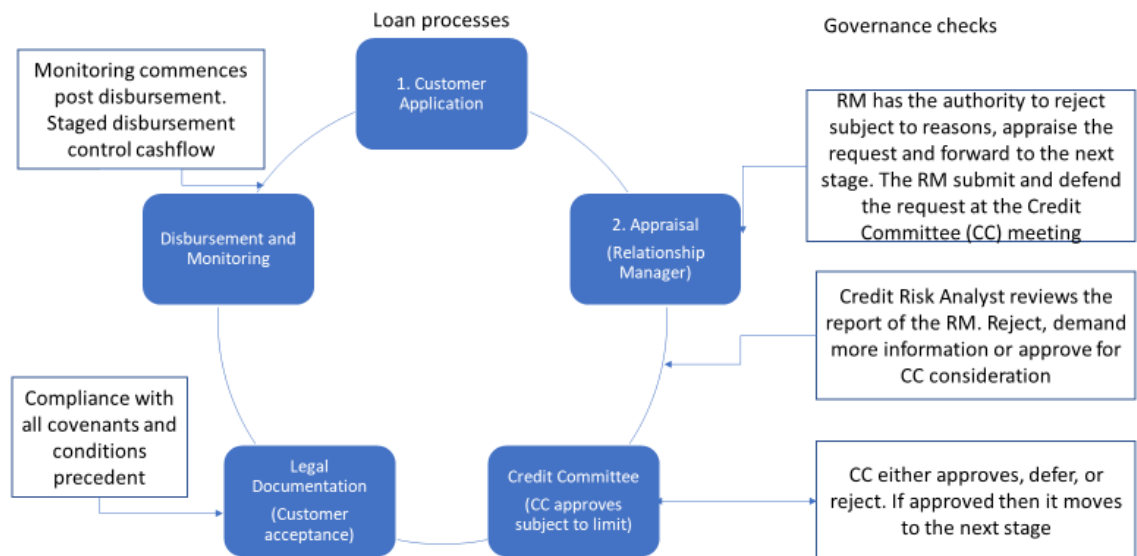
In summary, the foregone analysis revealed control and monitoring as vital the governance mechanisms that investors deploy to ensure that bank-based fund managers realise contractual objectives. Emerging from that analysis is the pre-approval governance mechanism embedded in the internal processes of impact investors serving. The internal governance checks facilitate the screening of bank-based fund managers they partner. All the five bank-based fund managers acquiesce to these governance mechanisms irrespective of the impact fund under management. The only exception is where investors provide equity capital, which then implies ownership and board representation as an additional governance mechanism. From the five bank-based fund manager respondents to this research, there was no evidence of an impact investor committing equity capital to these

institutions. It implies that impact investors usually commit equity capital to private equity funds and tend to channel debt funds through bank-based financial intermediaries for SME financing.

5.3.2 The Nature of Fund Manager- SME Governance

Bank-based fund managers deploy three primary governance mechanism to influence high growth and established SMEs to realise the social impact and financial returns. These involve pre-approval, control, and monitoring governance mechanisms. Evidence uncovered shows that governance mechanisms emerging from investor-bank-based fund manager level are equally applied at the fund manager- investee SME level. Further analysis of the corpus of data uncovered inherent pre-approval governance mechanisms in the loan or credit administration processes of bank-based fund managers. Embedded pre-approval governance mechanisms represent checks which precede the signing-off on loan/ financing agreements. Figure 5.3 present the loan approval process and embedded pre-approval governance mechanism of bank-based fund managers. Emerging from the five-stage loan approval processes is an in-built pre-approval governance mechanism in financing SMEs by bank-based fund managers. These processes at every stage could result in rejection of an SME loan application with reasonable justification including lack of business viability or high-risk factors. Moreover, bank-based fund managers have credit approval limits for approval committees, managers, and departmental heads to the CEO. All these credit approval limits aim at governance checks for sustainability and business continuity.

Figure 5.3 Governance mechanism in loan approval process



Source: Authors illustration from PhD data

Extant literature explains that the governance mechanism of control encompasses terms, conditions and covenants stipulated in legal agreements between a lender and borrower (Scarlata and Alemany, 2010). Empirical evidence from the corpus of data analysed shows that bank-based funds adopt different covenants, terms, and conditions to control the operations and activities of high growth and established SMEs financed. Typical phrases from all the five bank-based fund respondents concerning governance dimension of control ranged from "ensure covenants are met", "it depends on the business", to "adherence to terms of the facility" and "using covenants". While some of the covenants could be generic, the majority tends to business and sector specific. Moreover, sometimes emerging issues post financing influence subsequent covenants incorporated in additional financing to specific SMEs. Extracts of interview transcripts further explain bank-based fund manager influences through the governance dimension of control:

"if your clients, your cheques are coming through and they are bouncing.... If you are doing cross-firing, that will help us in shaping the covenants"- (BBF Manager A).

"various covenants we have put in place is the responsibility of the relationship manager to follow up with the business to ensure that those covenants are met"- (BBF Manager B)

Governance dimension of control evidenced by the analysed data comprised four constituents of higher-order concepts shown in Table 5.3. These four second-order concepts relate to first-order concepts from a category of second-order concept were formed.

Table 5. 3 Data structure of Governance: control and monitoring

First Order Concepts	Second Order	Aggregated dimensions
Various covenants, clause terms of facility; negative pledge;	Conditions precedent	
Weekly, monthly, quarterly and annual covenants on portfolio performance and quality	Performance-oriented covenants	
Reports, highlight variances, share reports with co-financier,	Reporting	Control
Ensure covenants are met, different business terms, business-specific covenants; those things are being respected.	Compliance	
Field, office and people visit; Be on the ground; Weekly, monthly and quarterly visits	Customer engagement	Monitoring
Closer to SME; identify early warning signals; understand customers; close to project and people;	Customer-centric	
Periodic reports; check for variance; calls; reviews	Call reports	
Stay through the processes; ensure money comes back; follow the money; prevent diversion; activity analysis	Risk-mitigating measures	

Source: Authors illustration from PhD data

Bank-based funds deployed governance mechanism of monitoring as the primary approach to influence SMEs financed to realise the social impact and financial returns. While control tends to be associated with terms, conditions and covenants stipulated in offer letters or legal documentation between the parties; monitoring occurs as post disbursement mechanism. Analysed data evidence phrases such as "we cannot do armchair lending" (BB fund manager A1), "*you have to be on the ground*" "*governance mainly through monitoring*" (BB fund manager C). Governance

mechanism of monitoring though ultimately seek to realise financial returns and associated social impact intermediate objectives were noted. Some of these intermediated objectives comprised risk mitigation, information feedback to credit decision-makers, support to SMEs, and ensuring compliance with agreed terms.

Table 5.3 above displays the data structure of governance mechanisms. Four second-order concepts of monitoring are further illustrated through interview excerpts follow next.

- Customer engagement- Effective monitoring requires customer engagement as a second-order concept to ensure customers fulfil their obligations. Analysed data showed calendar-based visits comprising weekly, monthly, or quarterly based on the loan type, nature of business of the SME venture and sector of operation. BBF managers through customer engagement technique of monitoring visited SME owners, management, and employees on-site and off-site locations. Sample interview extracts from respondents comprised:

"We do visit, and these visits are backed by call reports"- (BB fund manager A).

"most of it has to be reporting, and we do quite a bit of visit"- (BB fund manager C)

"it is either monitored monthly, quarterly, semi-annually or annually"- (BB Fund Manager).

Customer-centric- Another second-order concept representing the monitoring dimension of governance concerns customer orientation. Proximity to the customer, people, SME venture and projects financed enabled bank-based fund managers first understand clients and second detect early warning signals. Monitoring plays a critical role to effectively provide needed services to SMEs and feedback early warning signals into their credit system to pre-empt deterioration in facilities.

"You should definitely be close to the customer, close to the project, close to the people doing it to make sure that what really you saw and financed is what is happening"- (BBF Manager A).

"if you are able to get closer to the SME and get that information, it solves a lot of the problems. A lot of the problems, you are able to identify things on time, you can fix it before it occurs"- (BBF Manager C).

"one of the bases that we set foundation is that we have to understand the customers' businesses before can move with them"- (BBF Manager C).

Call reports- Relationship managers (RM) of bank-based funds typically submit call report for any customer visit to assist senior managers to make informed decisions. Such call reports capture relevant information including compliance with covenants and performance-related indices.

"..RM is the first point of call to the client, and they are supposed to optimally manage the relationship that they have with this customer" (BBF Manager D)

"internally as a requirement my RM, I will require you to visit a customer a certain number of times in a month or a week and bring call reports...the quality of the discussion is a subject of coaching that we go through every time" (BBF Manager C)

"they go and do frequent visits...they pick some of this information in a report, and they send it back to our credit team...we also want to know what the revenue streams are looking like... if it is declining with time, then that is a red flag" (BBF Manager D)

Risk mitigating strategy- Bank-based fund managers seek to mitigate risk in financing SMEs in pursuit of the dual goal of social impact and financial returns. Perceived risks of financing SMEs have, to some extent, influenced bank-based managers to put in a new mechanism to realise investor objectives of financial returns while creating the expected social impact. Excerpts of interview relating to the second-order concept includes:

"Once again we look at the activity on the account and sometimes, we monitor, we go out there to visit the customer just to see how they are doing and that kind of stuff"- (BBF Manager D)

"the RMs are dedicated, they are responsible for ensuring that the business grows, responsible for ensuring that the loan is paid back, and responsible for ensuring that whatever they have to do for the businesses succeed" (BBF Manager C)

Case illustration box 5.1 demonstrate an effective governance mechanism for realisation of social impact and financial returns.

Box 5.1 How Bank based fund through governance support high growth SMEs to realise objectives in BoP communities

Case illustration: Box 5.1

Bank-based fund manager B is a Pan-African bank with a network of branches all over Africa. As a signatory to the Feed the Future program, BBF Manager D allocated \$5 million of the loan portfolio to agri-business finance in Ghana. BBF B financed a farmer group in the Northern Regions of Ghana called Masara Farmers Association, which can be described as high growth smallholder network. Geographically, the Northern Region is among the three most impoverished areas in Ghana where the majority of the people live on less than \$2.00 a day. Before the financing, Masara had 1,000 farmers as out-growers producing maize, rice and soya for MNCs, World Food Programme and other institutions in Ghana. The financing agreement signed contained covenants and conditions which controlled the disbursement of funds. Besides, an off-taker agreement with MNCs was signed to ensure that payments from the produce were channelled into an escrow account. Dedicated relationship managers were assigned to the farmer group and MNCs as a governance monitoring mechanism to guarantee and control financial returns. This value chain financing of aggregators (high growth farmer network as SMEs) guaranteed market access to the individual farmers in BOP communities. The dual goal of financial returns and social impact were realised through income improvement, poverty reduction and families of farmers also benefited from the produce. At the macro level, the MNC had access to the farmer out through the aggregator, Masara, for their production generating financial returns to the MNC and the aggregator.

BBF manager B added that *“they are doing almost 10,000 farmers. For us supporting them is helping improve the standard of living of the farmers. Again, guaranteeing them market access. Because as an organisation, they can sell to the bigger corporates. They are selling to Wenco, World Food Program and all of that, and for us, that is one clear story of impact”*. In summary, effective governance mechanisms of control and monitoring of the MNCs, aggregator SME (Farmer network) and individual farmers facilitated the fund disbursement and access to produce in BOP communities. The simultaneous goal of social impact and financial returns were paramount to the financing decision, and successes accomplished.

In summary, the analysis presented revealed control and monitoring constituting the generic governance mechanism that bank-based fund managers adopt to ensure SMEs supported realise the social impact and financial returns. Governance mechanisms adopted by all the five bank-based fund managers focusing on pre-approval mechanism, control, and monitoring (post-financing governance) appears to have effectively worked in the past. These governance mechanisms seem not to be changing because of the emergence of impact investment capital in search of dual goals. Fund manager A and C's establishment of dedicated units and departments focusing on SMEs supported with impact funds have worked effectively coupled with the existing governance mechanisms. Some fund managers, however, bemoan the effectiveness of these governance mechanisms, especially when SME entrepreneurs became aware of the availability of impact fund under management. Fund managers B and C lamented the difficulties encountered to ensure that SME entrepreneurs fulfil the outcome of the financial return. Such situations occurred where entrepreneur owners of SMEs had the mind-set that the impact investors had subsidised the funding. Also, fund manager C remarked that the existing organisational structure of the bank hindered effective monitoring of SMEs supported in the agri-business sector resulting in relatively high non-performing loans.

5.4 Strategy Change

Commercial Banks are commercial, profit-oriented and shareholder-value maximising organisations channelling funds from deficit units to surplus units. Strategically, bank-based fund managers attract capital for funding SMEs and businesses which generated the highest returns in terms of interest, commissions, and fees. These funds tend to assist in liquidity management, income growth, asset earning portfolio, improve shareholder capital and reserve requirements. However, with the emergence of impact investment, bank-based fund managers have collaborated and positioned their institutions as credible and reliable partners for realising developmental objectives. Such evidence of strategy change, and alignment were also exhibited through SME financing in specific sectors and underserved BoP communities. Strategic value propositions, which enabled bank-based fund managers to access impact investor funding for SME support comprised

demonstrable branch network, risk management system, corporate governance, and professional expertise to deliver on expected outcomes.

5.4.1 Existing strategy, change or alignment of bank-based funds

The nature of bank-based fund manager influences on the strategies of SMEs supported emerge based on analysis of the types of impact investor fund under management, modalities for disbursement and criteria for financing some of these SMEs. Majority of these impact funds had qualifying criteria for bank-based fund managers to meet and the funds could either be domiciled with the bank or designated account outside the local jurisdiction for drawdown. The drawdown process commences post-approval and legal documentation.

Before the emergence of impact investments, strategies of bank-based institutions, primarily commercial banks, were fundamentally driven by external global events, local environmental analysis and internal analysis. Underlying all these analyses drawing from a global context, national environmental drivers and internal capabilities were risk-return relationships in transactions to finance. The ultimate motivation and outcome were shareholder value maximization and profit. Given these drivers of strategies pursued, bank-based fund managers financed transactions on commercial terms, target corporate organisations, Government institutions and Multinational Corporations (MNC) with negligible attention to SMEs perceived to be high risk. The primacy of financial returns made any social impact incidental to corporate strategy.

Financing of development-driven companies and SMEs were perceived as the obligation and preserve of government institutions, agencies, NGOs, and development finance institutions. Bank-based fund managers viewed enterprises that sought to realise social impact together with financial returns in different sectors and geographies as high-risk, unprofitable and preserve of alternative financing institutions. However, within the past decade, from a strategic adaptation theoretical perspective and resource-based view, some of the bank-based fund managers have changed or altered their strategies. They have positioned themselves as intermediaries of SME funds and attracted impact investor funding. Bank-based fund manager positioning explains the 'why' of strategy change. Evidence of strategy change of bank-based funds and SME investees are presented in subsection 5.4.2.

Strategic adaption theorist argues that managers of organisations review and evaluate environmental conditions and change strategies or align with emerging trends for survival and growth. Resource-based theorist also posits that the board of directors of organisations tend to be boundary spanners between external environment and managers of organisations. In performing this role, the board of directors and executive management access key external resources primarily financial, human, and technological for organisational growth, profitability and expansion and value maximisation. From these two theoretical perspectives about 'why' of strategy change or alignment, an analysis of the corpus of data collected is presented guided by the second research question. Principally, bank-based fund managers at the investor-fund manager level have positioned themselves as an attractive destination of impact funds, collaborated with DFIs, secured long-term funding, and acted as agents of financing SMEs in BoP communities to manage different impact funds.

5.4.2 Impact investor- bank-based fund strategy change

Development finance institutions representing impact investors for this research have evolved in their financing of transactions. In time past, DFI's financed high value and infrastructure-related transactions to the neglect of SMEs serving BoP communities. Based on the corpus of data analysed, bank-based fund managers and DFI's exhibited strategy change under four conditions elaborated below. These strategy changes reflect 'what', and 'why' of strategy change reviewed in 2.4 towards the development of the theoretical framework.

Collaborative funding of SMEs in BoP communities emerged as evidence of strategy change and alignment at the impact investor-fund manager level. Bank-based fund managers have changed their strategies with a focus on priority sectors of DFI's in attracting funding that seeks to support SMEs. Through such a change in strategy, DFI's view bank-based fund managers as partners and collaborators in development within BoP communities. This strategy changes through collaborative funding exemplify Hotchstader and Scheck (2015) impact investment strategy that focuses on sectors, geographies, and demography. In pursuit of developmental objectives in BoP communities, bank-based fund managers secured long-term funding from DFI's through such collaboration. Some of the impact fund models discussed in subsection 5.3.2 attest to the extent of collaboration among bank-based fund managers and DFI in search of such solutions. Excerpts of the interview are as follows:

“....the primary window through financial institutions is to support SME. Now given that we are an institution based out of Vienna with one office, the most cost-effective way for us to do that is to work with partners that are on the ground who have these relationships with the SME’s we don’t have the relationship, so it makes sense to partner with banks and financial institutions” (Investor D)

“The development agencies, they have an impact on the either economic or social impact that they are looking at, So, based on the objective that they have, they partner with, us” (BBF Manager B)

Also, bank-based fund managers positioned themselves to impact investors through strategy change to access long term capital for SME growth and impact. SMEs, in general, tend to be financially constrained, affecting their growth and impact in BoP communities uncovered in Sections 2.2 and 3.2. Development finance institutions and bank-based fund managers through strategy change have developed models and financing arrangements to curb the financial constraints of SMEs, mainly due to the developmental impact. Because of the strategy change, bank-based fund managers had guaranteed access to long-term capital to support SMEs in pursuit of social impact and financial returns. Interview excerpts include:

“while they are making the commercial return, we can work with them to ensure that the funding is channelled as opposed to only the large corporates, sometimes help them channel funding to the SMEs... where we come in is that many banks do not have access to long term loans, they are not able to get funding on their balance sheet for five to seven years. We are as DFI's; we do that, we come and give them a loan for five years” (Investor D)

“they (DFI's) make it clear, dictate the reasons why these funds are given, and then you make the call that indeed I want to go through this route or that route” (BB Fund Manager B)

Another evidence of strategy changes of bank-based fund managers in accessing impact investor capital is the potential catalytic effect SME financing on economic growth. SMEs in developing countries play an essential contribution to job creation, social cohesion, and economic growth. Extant research (e.g. Abor and Biekpe, 2010) shows that SMEs contribute at least 70% to employment and about 50% to GDP growth in Ghana. SMEs contribute to economic growth through government

taxes, the statutory contribution of employees such as pensions, health insurance and provident funds. These reflect how high growth and established SMEs find solutions to societal problems reviewed in section 3.2. Such contribution of SMEs makes the financing by bank-based fund managers catalytic. Accessing funding from impact investors to simplify this catalytic effect enable developmental objectives to be realised.

“.....if they have access to long term funding to manage their liabilities and pay the money back quickly the role that we play is to encourage these banks to finance the small and medium-sized enterprises. Also, when you finance SME, and that, of course, has a catalytic effect on economic activity and growth.” (Investor D)

Finally, bank-based fund managers have developed products and services that exclusively cater to the needs of social sector market segments. Bank-based fund managers neglected social sector funding due to the low level of profitability and perception of preserve for government and development agencies. Impact investor funding shows strategy change of bank-based fund managers in sectors like education, health, water, and sanitation. Excerpt of interview evidence this emerging trend

“we have a fund where, it is a debt fund where we have invested in, but the debt fund is mandated to provide loans to banks for on-lending to educational institutions or for the bank to provide school loans or education loans. So that is the way to help the banks, you know to finance those sectors that would not typically be profitable or will not make sense for them purely as commercial bank” (Investor D)

“..they (DFI's) open up and say this is what we want to call it, this is what we want to see happening now in our part of the world, check that we can provide you with the full support that you will be able to correct it.” (BB Fund Manager B)

The nature of strategy changes between impact investors and bank-based fund managers to a greater extent reflect the different funding models that bank-based fund managers deploy. Impact investor-bank-based fund models determine strategy change at the fund manager-SME investee level. An analysis of impact investor funding models is presented next, which dovetails into the strategy change of bank-based fund and SMEs with the emergence of impact investing.

5.4.3 Impact investor and Bank-based fund models

Impact investor influences on commercial banks through bank-based funds from the analysed data were empirically noted in the different types of impact fund models operating within commercial banks. Evidence from this subsection of the empirical chapter dovetails into the 'how' of strategy change reviewed in section 2.4. Further, how bank-based funds and established SMEs financed represent agents of solutions to societal problems reviewed in 3.2 within the research setting is connected to the type of funds under management. Finally, the deliberate pursuit of social impact and financial returns uncovered from the social entrepreneurship literature largely depends on the funds under management. Apart from the intermediated funds of some bank-based institutions, many of the bank-based funds fell into six major categories. It was also observed that crucial considerations, including funding source and purpose together with the expected impacts were determinants of different impact fund model described as a bank-based funds domiciled with commercial banks. These six models of bank-based funds include managed funds, co-financing, subsidised funding, grants, guarantees and revolving loans which are analysed sequentially.

Managed funds represent one of the significant categories of impact fund model sourced from Development Finance institutions (DFI) for on-lending to SMEs. These funds typically were not sector-specific but instead targeted different sizes of SMEs lacking access to long-term capital. Such funds also tend to provide liquidity support and expand loan portfolio-size of the bank-based institution. Generally, for transactions up to a maximum of two years, such bank-based impact fund model seeks to realise financial returns and social impact at the micro-level. A couple of interview extracts further explain this category of bank-based fund model:

“while they are making the commercial return, we can work with them to ensure that the funding is channelled as opposed to only the large corporates, sometimes help them channel funding to the SMEs” – (Investor3)

“You know there are others that will come and invest in the bank broadly and say if you invested this amount, and with you we want you to do something with SMEs”- (BBF manager, C)

Co-financing constitute collaborative funding between bank-based funds and development agencies. Bank-based funds deploying impact investment funds through the co-financing model occur in the form of a 50%-50% funding arrangement. Characteristically, subject to an SME applicant fulfilling the terms and

conditions of the loan, 50 per cent of bank-own funds and 50 per cent of impact investor fund were allocated to finance the transaction. In this model, the bank and co-financier conduct a joint assessment of the SME with the bank focusing on financial viability and the co-development institution assessing the social impact dimension.

"We have another one with health, with a medical credit fund, that one is also slightly different. What we do is that we both find, these are for medical facilities, i.e. pharmacies and hospitals. If we identify a hospital that might need a loan, we go and do a joint assessment with medical credit fund because they hold part of the fund, and we lend 50/50%" (BB Fund Manager C)

Another feature of such a co-financing model tends to be sector-specific with impact investors expecting access and improvement in these sectors. For example, healthcare in Africa, which is a significant issue, is currently been addressed through different innovative financing models, including co-financing impact fund model. Consistent with previous literature is the concept of "co-investment" which on a larger scale focus on "big-ticket" investments initiative between government, impact investors and private investors (Wood et al., 2013, p.84).

Subsidised funding aims at ameliorating the high-interest burden encountered by high growth and missing SMEs in health, education, water and agribusiness sectors as agents of development. These high impact sectors in BoP communities is what Hochtstadter and Scheck (2015) finds that impact investor strategy encompasses different geographies, sectors, and demography. Subsidised funding model occur in the form of some percentage interest or principal pay-off on-behalf of the SME. In a typical subsidised funding model to promote Agric technology transfer in certain parts of Ghana, the bank-based fund received 15% interest pay-down for every SME financed from the development agency implementing the model. BBF manager A noted that

"Their focus is on the transfer of technology, and they look at seed development and those involved in smart climate agriculture, for any client we finance in that value chain, they offered 15%... it used to be 15% interest rate buy-down, but now they have reduced it 15% of the principal"

In effect, the SME client repaid 85 per cent of the principal borrowed from the bank-based fund subject to critical criteria such as geography and size of SME.

Grants and guarantee models from the analysed data come in different forms and with different investor objective to be realised. First, 'market-testing' grants to

bank-based fund managers ensure capital availability to enable fund managers to test specific funding models in emerging sectors or unproven markets. As noted in the literature review and section 3.2 of the historical context of impact investing in Ghana, SMEs as agents of the solution to wicked societal problems require alternative entrepreneurial financing for societal transformation. Bank-based fund managers, therefore, use grants and guarantee financing models to support SMEs in such unproven markets and sectors. Ultimately with the exhaustion of the grant, bank-based fund managers were expected to develop loan products for these market segments. Grant funding reduces the learning curve and the risk of utilising bank capital for such market testing initiatives.

As explained from the excerpts of interview extracts,

"....I think that those sorts of models, they are better in the sense that, sometimes they are good for building markets. You know you want to build the market, if you tell the bank that I should risk depositor's capital, to go and do this, what if it does not pay off" (BB fund manager C)

"We also did, 50% cover. If you want an amount of \$50,000 the value of the security must be up to 50% as the agent and the difference will be that of the Gates Foundation..., so those models are to help us go through the unforeseen and unknown circumstances within greenfield" (BB fund manager D).

Secondly, grants to bank-based funds also occur in the form of incentives to fund managers to ameliorate the monitoring cost of SME financing. Grants assist recruitment of developmental-oriented staff to design products for the emerging target market that hitherto were unprofitable. Consistent with the findings of Wood et al., (2013, p. 90) grants and guarantees primarily "reduce the risk for unfamiliar products" and can catalyse development.

For example, bank-based fund manager A explained that

"for the USAID FINGap collaboration, they incentivise us with grants...The point I am making is for every financing you do, and they give you some reward. Also, that reward is not meant for investees but meant for the internal use of the banks. So, for that matter, the Agric desk.

Moreover, what in the past, we have used that money is for monitoring and control to reduce risk and mitigate some of the agricultural risks that are inherent in the market."

Guarantee models, however, relate to first loss-provision funding to empower and incentivise bank-based fund managers to increase loan portfolio to SMEs in specific sectors or value chain. Such initiatives were aimed at financial returns, social impact

and economic development. Analysed data showed development agencies and philanthropic organisations partnering with bank-based funds to finance SMEs in agriculture and health sectors through guaranteed schemes.

"...maybe we have no experience in maybe football financing. So if somebody comes in a say hello, as a bank you will be able to get A, B and C, and we are going to provide this support to get you to understand the industry and support them financially. Also, then we will say yes, at least our risk is 50% or a certain percentage is taken off, so we can take the difference instead of just taking the full 100% risk"- (BB fund manager D)

"What this brings into the mix is that it enables us to relax the collateral requirements. So what USAID is saying is that if you give a facility with this kind of characteristics in loan facility, straight away 50% of the loan you have given to the person, I am guaranteeing that for you" (BB fund manager C).

Most of the bank-based respondents claimed they tried not to call-in the guarantees though they existed. Such impact funding model boosted substantially financing to high growth and established SMEs in these specific sectors from bank-based funds.

"For us, we are also very wary of that, so we also make sure that whatever deal that we have is perfect in terms of the structure, quality of the credit. For us, we expect that we will not claim on the guarantee" (BB fund manager C)

A revolving fund or loan model encompass funds set aside through capital from a development agency to be managed by a bank-based institution for on-lending to SMEs in specific sectors. Typically, these funds were lent to SMEs within specific sectors and geographies with repayment and interest recycled as new loans to other SMEs. Bank-based fund manager C explained how it worked:

"The money was not a guarantee, and it was not 50/50, they gave us the money in tranches. We put it in a revolving loan fund, and we lend out of that money..., if you try and push money through commercial terms, you would always have a problem because you are lending to a person who is critical in the social area, It is called P2P for WASH, water, sanitation and Health".

Analysed data showed evidence of funding from development agency (investor) releasing capital to the bank-based fund in tranches over a specific time. In effect, disbursement, and repayment of the first tranche result in the release of subsequent tranches. To promote and support SMEs in specific developmental sectors, interest rates on these loans were relatively low because these sectors were unattractive to commercial capital.

"We created the revolving loan fund methodology. Which means we are not lending {Bank's} money, we are lending the development money that is comings.... An interest rate of about 10%" (BB fund manager D)

Revolving fund model usually entails the bank-based fund manager partnering with an NGO to facilitate the assessment and approval process. The partner NGO executed a social and developmental assessment of the SMEs and MFI's supported. The bank-based fund manager then focused on financial viability appraisal and bank product distribution channel within the expected geographical parameter. Typically, SMEs targeted and supported were within BoP settings, namely rural, district and peri-urban communities. The partnered NGO addressed the social impact assessment during the appraisal and post financing social impact measurement.

5.4.4 Strategy change of bank-based fund managers and SMEs

Subsection 5.4.3 on models of impact funds under management by bank-based fund managers dovetails into this subsection. Explanation and insight about impact investor funding models on the ground facilitate illustration on strategy change evidence. The following presentation shows analysis and findings on strategy change of bank-based fund managers in financing SMEs, which pursued dual goals.

When I posed the question, respondents gave different answers, which showed evidence of strategy change with the emergence of impact investing. For example, bank-based fund manager D suggested the establishment of a unit within a department called "*Strategic Partnership Unit*" to attract alternative funding for SMEs, especially impact investor funds. As expressed in the interview extract:

"We have our own unit. I do not think there is any bank that has a partnership unit dedicated to working with these DFI's to make this thing work. So certainly, the team has become better at doing it" (BB Fund Manager D1)

Bank-based Fund manager D explained that strategic allocation of finance to agricultural enterprises was not their core area of business. As noted by Hochstadter and Scheck (2015), the impact investment strategy can be observed from sectors and demography financed. Further, Wood et al. (2013) earlier alluded to an integrative strategy of investors and fund managers, focusing on deal pipelines in their portfolio manifesting high social impact. This specific bank-based fund manager, therefore, sought opportunities to grow their loan portfolio to the sector perceived as high risk.

"Agric is risky or perceived to be risky. Also, the whole thing was, we sat down and said no it is simple, we do not understand Agric....So, when this discussion about getting the USAID guarantee for Agric value chain financing came, we just jumped to it.... there was also a technical support side attached

to it, and that has been delivered” (BB Fund Manager D2)

However, for bank-based fund manager A, strategic change at their global business level permeated the local organisational level resulting in a focus on agri-business value chain which hitherto had been neglected. Through internal funding called “financial intermediation” and impact investment incentive, fund manager A over the past three years allocated almost \$60 million to agri-business sector, which hitherto was neglected.

“My bank does not chase those funds because we are self-sufficient when it comes to funding. I have had offers from agencies who want to give us those monies but because we have excess funds We have just hit the \$ 60 million-dollar total loans.”

An elaboration of five conditions evidencing strategy change and alignment of bank-based fund managers and SMEs financed are presented next. These conditions further evidences deliberate pursuit of social impact and financial returns in BoP communities in line with research objective 2 of Section 1.3. Social entrepreneurship literature (Battilana et al., 2012; Peredo and McLean, 2006; Serlos and Mair, 2005) explains how organisations and ventures adopt different strategies for realising the simultaneous social impact and financial returns.

An integrated strategy of linking MNC, SME (aggregators) and farmers in BoP communities Hitherto, Multinational Companies (MNC's) in Ghana sourced inputs globally with little regards to local communities. However, in recent years, some MNC's financed by bank-based fund managers expressed intentions and strategically sourced raw materials from the local economy. To promote social and financial returns through SMEs, bank-based fund managers developed value chain financing model linking MNCs, SMEs and farmers. This strategy changes evidencing integrated impact investment strategy satisfy Wood et al. (2013) and Ormiston et al. (2015) approach for deploying impact investment capital. Further, bank-based fund managers strategy changes in attracting impact investment funds is demonstrated through the financing of SMEs who deliberately source materials in BoP communities for income and poverty reduction. This model integrates MNC seeking to source locally with SMEs as aggregators to farmers in BoP communities to realise the simultaneous impact and pursuit of inclusive development over the past few years. In effect, the value chain financing model enabled the MNC to reduce operational cost and increase profitability while supporting BoP communities.

Similarly, the SME aggregators simultaneously promoted social impact and

financial returns for farmers. Such evidence of social impact and financial returns reflect what Battilana et al. (2012) refer to as integrated strategy from the social entrepreneurship literature. Extracts of the interview show how BB fund manager A financed two SME aggregators to support farmers in BoP communities to fulfil supply requirements of an MNC.

"In 2014 or 2015 we did one too with GGL. I think Government to encourage businesses in Ghana came up with an incentive..., you get a tax rebate for local market purchase. So GGL (MNC) sought to now source sorghum locally. Also, they had a perfect variety from the North. So they introduced two of their aggregators if you like the suppliers to us..... and we supported them with GHS 6.2 million to be able to mop up the Soghum from smallholder farmers, aggregate it clean, bag and then transport it all the way to GGL."

In structuring the value chain financing model, the MNC signed a supplier agreement with the SME aggregator companies. These selected SME aggregators enter into a production agreement with farmers in groups to produce specified quantities of products and specific quality. Financing is provided by the bank-based fund manager to assist the SME aggregator to support the farmers and mobilise the produce from the farm gate. SME aggregator mobilised the produce from the farmers after harvesting and supplied to the warehouse of the MNC for certification and acceptance. Subsequently, invoices issued to the MNC which usually is subject to 60-day credit were submitted to the bank-based fund manager for discounting.

Social sector SME financing exemplify an impact investment strategy focusing on sectors, geography, and demography (Hochstadter and Scheck, 2015; Rajan et al., 2014). Thus, evidence of strategy changes and alignment among bank-based fund managers relate to an upsurge in financing SMEs operating in social sectors such as health, education, water, and sanitation. Further, social sector SME financing reflects an "embedded social purpose" (Austin et al. 2006) model of strategy change of deliberately realising financial returns with automatic social impact. Because of demography and geography (Hochstadter and Scheck, 2015). The emergence of impact investment funds facilitated access to such funding and motivation for bank-based fund managers to finance SMEs in these sectors. In financing such SMEs, bank-based fund managers were mindful of the expected impact in BoP communities and financial returns to meet impact investor expectations. An extract of a financing initiative to bank-based fund manager D with support from an impact investor (USAID) to promote health care in rural communities in Ghana.

“And the whole idea is that you know they wanted us to grow a portfolio in the health sector progressively, but then you are looking more at rural communities. So instead of doing the urban side, we are trying to build the capacity of health facilities that are in the rural areas to be able to provide these health services to the rural folk”.

Similar evidence of strategy changes in financing social sector SMEs emerged where bank-based fund managers previously allocated paltry sums of the loan portfolio to such sectors because of the profit maximisation orientation.

“Recently, we had issues in Komfo Anokye where you could not even get a place for children in terms of maternity block. So, the whole idea was to look, let us try and promote quality care for those who are dealing in child and then maternal health” (BB Fund Manager D2)

Another support in the social sector, which evidence strategy change aided by impact investment funding is the promotion of quality water access, sanitation, and health improvement. Typically bank-based fund managers avoided such sectors if the business case did not justify financing and profitability. As BB fund manager D1 sought to articulate from the interview extract:

“...Once its donor-led sometimes it becomes difficult because you have to prove a business case for the unit. You know, the business must decide I want to do Agric, [Water, Sanitation]. You know, and really, I feel that there is a business case here and feel that if I go and I lend in this market, I can go and make money out of it”.

Financing of these sectors by bank-based fund managers is against the backdrop of low allocation of capital from Government and public sector-led agencies in curbing societal problems as uncovered in Section 3.2 and 3.4. Indeed, access to water and poor sanitation constitute key challenges confronting BoP communities in Ghana. Lack of government finance to these essential sectors and lack of business case from banks to finance resulted in a quick-fix solution. The perception of risk, unprofitable business segment and financial constraints affect SMEs in the Water, Sanitation and Health (WASH) sector.

“...Back in the day, I remember before we were introduced to WASH, there was a client like that who said he had a chain of toilet facilities and he wanted to build another one. I mean people who came into contact with him, I was one, we are wondering, is this thing viable, sustainable, how will he generate cash flow to repay the loan?” (BB fund manager D2)

Such speculation, doubt about cashflow abilities of SMEs in the WASH sector were dispelled when an impact investing agency (Embassy of the Kingdom of the

Netherlands (EKN), committed some impact capital. Bank-based fund manager D was mandated to manage the fund and collaborated with an NGO to assess and facilitate financing to high growth and missing middle SMEs in the sector for simultaneous social impact and financial returns.

“...after going through the whole dynamics and then getting this technical support from our partners SNV, we realise that you can build the business model out of this client. Because I gave him a loan at 10% per annum, highly subsidized interest rates, he actually worked with it. He pays back... If I gave him a loan, he has a truck. If I gave him a loan, he might say, I want to buy two additional trucks” (BB fund manager D2)

Significantly, financing SMEs in the WASH sector, which were neglected due to perceived risk and low profitability guaranteed both social impact and financial returns to the bank. It was succinctly expressed by bank-based fund manager D in the following extracts:

“.....number one, you have increased his reach, and that is the social side. Now he can go out there and pick more rubbish from households. Also, number two, the commercial side, he is proving to you that look, I can get cash flow, and I am paying back your loan.... once this person now has built 'wealth' and has paid off the loan, ploughing back all the money into his business, now you have actually built capacity for this guy to go and borrow at a commercial rate”

The third evidence of strategy change is the upsurge in promoting financial inclusion through SMEs via agency banking. A review of the historical context of impact investing through financial architecture reforms in Section 3.3 uncovered how the technology context has changed and the extent of financial inclusion. Bank-based fund managers, therefore, through the support of impact investors adopted strategy change to promote financial inclusion through high growth and established SMEs to reduce poverty, improve livelihood and access to finance for hitherto unbanked BoP communities. Evidence of financial exclusion of most of the Ghana's population is well documented in the literature and commissioned reports (e.g. World Bank). Due to inadequate distribution networks of commercial banks, some of the bank-based fund managers developed strategies and business models to promote financial inclusion. These models were designed and implemented through impact investor financing to enable bank-based fund managers to build capacity, engage SMEs as agents to deliver the services in BoP communities. Extract from the interview from a bank-based fund manager

"We actually had funds from the Bill and Melinda Gates Foundation, but that was geared towards supporting or promoting savings for individuals. However, the other bit that was SME related was providing the cover or support for the bank to extend facilities to agents who will be providing financial services in the communities of these individuals that traditionally will be financially excluded" (BB fund manager B)

To realise the anticipated financial inclusion through an agent network, SMEs were identified, capacity developed and financially supported through the funding from the impact investor.

"the retail shop next to the house can receive the consumers' deposits and directly credit it into his/her account.... in trying to deepen financial services we then needed to empower the agents with liquidity support. Because they can only deposit what they have, they cannot deposit what they do not have. So, we then needed to empower these guys with liquidity support, hence the support from Bill and Melinda Gates" (BB fund manager B).

The fourth evidence represent digitisation broadly including mobile money services and MFIs funding were pursued as a complementary strategy to provide both financial inclusion and development in BoP communities. Battilana et al. (2012) find that a unified hybrid strategy of deliberately realising the social impact and financial returns are exemplified through MFIs. Peredo and McLean (2006, p.63) earlier suggested an integrated strategy of commercial exchange and profits directly to a social benefit based on Grameen Bank MFI model. Microfinance institutions which represent established and high growth SMEs constitute another channel that bank-based fund managers utilise evidencing strategy change for societal transformation in BoP communities. To promote financial inclusion and access to finance by SMEs in rural communities, BBF manager D used MFIs in BoP communities. SMEs engaged in water, sanitation, and health sectors in rural, district and peri-urban communities were directed to access funds through MFI's in their communities. A co-appraisal of the MFIs were conducted. Subsequently, these funds were disbursed to small enterprises engaged in the WASH sector while providing opportunities for their inclusion in the financial system.

"Because you are also trying to bring peoples mind to banking. If the person is not banked, we need to bring him into the financial system... It was going to be expensive if the bank was going to that on our own. (BB Fund Manager, D₂)

"...we are using digital to drive financial inclusion because that is typically if you need to provide better and low-cost financial services to everybody in all the parts of the country...to ensure that the mobile becomes the driver for achieving financial inclusion in our part of the world....For the merchant, we

are developing a model where a certain cashflow of yours becomes automatically accessible when you request for it to support the liquidity of the business (BBF Manager B)

Case illustration box 5.2 below depicts another 'how' of strategy change of BBF D in deliberate pursuit of social impact and financial returns.

Box 5.2 BBF manager D, strategy change and financing of a missing middle SME

Case illustration: Box 5.2

A World Bank (2013) report shows that Ghana lags in terms of health outcomes and evidence of a high incidence of communicable diseases exist. Water and sanitation constitute a significant challenge confronting the Government of Ghana, especially in peri-urban and rural areas. Inadequate access to water and sanitation facilities compound the incidence of communicable diseases in Ghana. To reduce these challenges, BBF manager D secured an impact investment fund of \$2 million to finance established and missing middle SMEs in urban, peri-urban and rural areas. BBF manager D had previously turned down the financing of SMEs in the water and sanitation sector based on perceived risk, unprofitable market segment and unwillingness to commit own funds. However, impact investment capital caused BBF manager D to change strategy. The objective was to target these categories of SMEs directly or indirectly through Microfinance Institutions (MFI) in peri-urban and rural communities for social impact and financial returns. These peri-urban and rural communities represent BOP communities, financially excluded and lack access to infrastructure. As explained, *"we have some MFI's too that we give money to and they on-lend to these people to get the toilet. So, for the MFI you are looking at an average loan size of about GHS 118,000's [\$29,500'], but the maximum we have done so far in terms of disbursement is GHS 500,000.00[\$125,000.00] to an MFI" (BBF Manger D).*

MFI's supported represent established SMEs engaged in financial services targeting small businesses providing solutions to societal problems, i.e. water and sanitation. Small enterprises accessing these funds become an incentive to provide access to water and improved sanitation further while making a profit from their ventures. Impact investment funding has, therefore caused strategy change among BBF managers to support different categories of enterprises in BOP communities.

Finally, another evidence of strategy change is the facilitation of agri-business financing in Ghana. Agri-business is a significant sector that impact investment strategy automatically realises the expected objectives due to the connection with the global value chain of food security. Hotstadter and Scheck (2015) and Addis et al., (2013) finds that societal problems including poverty, poor livelihood and low income in BoP communities can be alleviated through financing sectors including agriculture and agri-business. Impact investment funding to bank-based fund managers over the past five years has guaranteed growth in funding

towards the agriculture sector. Key impact investment agencies and institutions including USAID, AGRA and DANIDA have collaborated with bank-based fund managers through incentives for agri-business funding. Real and perceived risk in the agriculture value chain financing, as well as lack of technical expertise within bank-based institutions, led to the neglect of the sector previously. Some commercial banks in time past had weak loan portfolio within the sector resulting in only Government-owned banks purportedly supporting the sector as shown in Section 3.3. Under the United States of America (USA), "Feed the Future" program, USAID FinGap (Financing Ghanaian Agricultural Project) incentivised bank-based fund managers to support agri-businesses with finance. The incentives were in the form of grants and guarantees for increase funding to SMEs in the maize, rice, and soy value chain.

"....The point I am making is for every financing you do, and they give you some reward. Also, that reward is not meant for investees but meant for the internal use of the banks" (BB fund manager A)

"They were trying to incentivise financial institutions to lend more to businesses in the maize soya, rice value chain called MRS value chain... they give you the grant, and the SMEs are expected to pay you based on your credit assessment. It is just to encourage us to write more deals. It is an incentive" (BB fund manager C)

"....when this discussion about getting the USAID guarantee for Agric value chain financing came, we just jumped to it. Because there was also a technical support side attached to it and that was being delivered by FinGap" (BB fund manager D₁).

Thus, through incentives of grants and guarantees, participating bank-based fund managers financed and grew their loan portfolio to Agri-businesses. Besides supporting agri-business financing within the value chain, these SMEs supported were operating in BoP communities, thereby realising social impact and financial returns. Four bank-based fund managers participated in the USAID FinGap with different degrees of success. BB fund manager A over the past two years was adjudged best bank in Agri-business financing noted through the grants and guarantees, they have grown their loan portfolio.

"We have just hit the \$ 60 million-dollar total loans..... on the top of my head, we have financed more than 30 businesses. We have financing as low as GHS 500,000.00 and as high as \$10 million" (BB fund manager A)

Based on the analysis presented on how bank-based fund managers and SMEs supported changed their strategies as agents of social impact and financial returns, the following findings emerge. Bank-based fund managers which hitherto

strategically financed Corporates, MNC's, Governments and Quasi-government entities changed their strategies. The analysis evidenced that bank-based fund manager A changed their strategy to finance SMEs in the agricultural value chain with the emergence of impact investing. Besides, to realising the social impact and financial returns in BoP communities, they connected two MNC's to SMEs and farmers a value chain financing model. Bank-based fund manager B strategy change, and alignment enabled the attraction of impact funds to promote financial inclusion and finance SMEs in agri-business for impact and financial returns.

Similarly, bank-based fund manager C supported SMEs in the agri-business sector. Setting up a dedicated unit, bank-based fund manager D evidence strategy change. They allocated funding to SMEs operating in social sectors including water, sanitation, and health. In pursuit of this new strategy due to impact investment funds, fund manager D also promoted financial inclusion in BoP communities through MFI's for financial support to SMEs and individuals. While strategy change of promoting financial inclusion can be termed transformational, it cannot be emphatically said about social sectors and other sectors considering the considerable investment capital requirements.

5.4.5 Investee SME strategy change as social enterprises

Existing literature on bank financing (Beck; 2013; Kuntchev et al., 2012; Ayyagari et al., 2011) indicates that SMEs, in general, are financially constrained and consequently unable to grow and positively affect economic growth. Financial constraints of SMEs are due to information asymmetry, perceived risk, lack of technical know-how and high failure rate. Strategy change of SMEs as for-profit social enterprises have enabled access to subsidised funding, growth and expansion, capacity development and secured legitimacy for alternative funding based on data analysis reflect impact in BoP communities.

High growth, missing middle and established SMEs with embedded social impact strategy that hitherto were financially constrained now have access to subsidised funding, thereby reduces their financial constraints. Typically, high-interest rates affected the ability of high growth SMEs to fulfil their obligations to bank-based institutions. However, impact investment funding models at a reduced interest rate, and sometimes guarantees minimized the financial constraints of these SMEs.

"There was one facility here at Nkawkaw. We gave the clinic GHS 300,000 and it was to finance the purchase of consumables, medical consumables i.e. drugs, CDs, gloves and stuff.....the collateral they had available was way in excess of even the loan amount.. but the assurance here is that if anything goes wrong, USAID is going to reimburse us with 50% of whatever is owed, and we can pursue the client for the rest" (BB fund manager D₁)

Secondly, strategy change, which entails providing commercial exchange and complimentary social purpose (Peredo and McLean, 2006) enabled missing middle SMEs to benefit from capacity development through technical assistance facilities from fund managers. Bank-based fund managers through technical assistance provided by impact investment institutions for managerial and operational capacity building of these SMEs to impact BoP communities.

"After financing sometimes, I remember one-time [BBF manager A] came up with a consultant to assist sometimes they come with advice, they have also opened their doors for I mean any difficulty or challenge, we can seek advice from them to get the results needed" (SME15)

"..We have an academy. That is something that ... runs on the side, where we train SME. So what we did was kind of integrate that academy into the P2P project. Also, so the SME customers.... we profile them. We have designed a template with a consultant, and they are IFC certified trainer. So, we have designed a template, and what the template does is, it picks the information that the customer brings" (BB fund manager D₁)

Thirdly, SMEs were also constrained to realise anticipated growth and consequently impact due to inadequate funding focusing purely on financial returns modified their business strategies and models. Impact investment funding and incentives already analysed provides entrepreneurial financing options, the impetus for business growth and social impact, which occurred through an integrated strategy. An example of such established SME that realised growth, impact and financial returns through an integrated strategy change is Masara. The SME secured access to funding, expanded an out-grower farmer group operating in BoP communities, purchase the product and subsequently sold their produce to global purchasers. As captured from the interview extract from bank-based fund manager B₁

"...., we invested about \$3 million in a farmer group called Masara. This farmer group in 2013 was reaching just about 1000 people. Today they are doing almost 10,000 farmers. For us supporting them is helping improve the standard of living of the farmers. Again guaranteeing the market access. Because as an organisation, they can sell to the bigger corporates. They are selling to Wenco, World Food Program and all of that" (BB fund manager B₁)

The ability of the above farmer organisation to secure market access and impact many people was enabled through the adoption of an operating model involving more farmer stakeholders farming in groups.

Finally, SME owner-managers that responded to this research acknowledged the effect of strategy change adopted in their operations. It resulted in legitimacy and created avenues for alternative funding sources given the high interest on loans in the country. The next section presents an analysis of how bank-based and SMEs financed simultaneously realise the social impact and financial returns in BoP communities in Ghana.

5.5 Impacts (social impact and financial returns)

Impact investment resources were utilised to support SMEs in different sectors, geographies, market segments to realise the social impact and financial returns. The governance mechanisms deployed, and strategy change of bank-based fund managers directly ensured that SMEs that hitherto were agents of private wealth creation facilitated access to products, services, and improvement in BoP communities about research objectives in Section 1.4. In this section 5.5, analysis of available evidence from the corpus of data collected is presented on the impacts (social impact and financial returns). Deliberate pursuit of social impact and financial returns as uncovered in the impact investing strategies in Section 2.4 and social entrepreneurship literature in Section 2.6 occur in different forms based on evidence from this empirical analysis

Evidence of strategy of the deliberate pursuit of social impact and financial returns include commercial activities plus CSR. Peredo and McLean (2006) describe such strategy as complementary where commercial profits are used to support social goals. Social impact represents an important objective for most SMEs considering the myriad of developmental challenges confronting the country. SME entrepreneurs were unanimous on responses to the question of impacts in terms of social impact and financial returns. Social impact comprises job creation, corporate social responsibility activities, and suppliers involved in out-grower schemes.

“ ...our motive first is to make a profit. You see, but we do social good. We build schools, ICT centres; we have a scholarship scheme where we pay not less than 100 student fees per annum” (SME 15)

“... where I am living if I did not bring the job to jobless people, they will attack me... that is why I am struggling to get a job done for all these societies..... Through me so many poor people, so many lower-income people, they have built one-bedroom and two-bedroom houses because they work through my farm” (SME₄)

“We support young kids in sports, talking of soccer... We do it yearly, and we make blood donations.... Moreover, then we also take care of, we have a team, hospital surgery team that comes down from USA and Canada to Ghana every year, to do free hip and knee operations for the poor men and women” -(SME₈)

Corporate social responsibility (CSR) initiatives of MNCs and other corporates have been adopted and spearheaded by some SMEs. Specifically, formalised support to underprivileged communities through foundations as part of CSR. For example, the CEO of SME₈

"this malnutrition is a whole chain on its own which we have a board chairman and other board members.... it is a project that it has run on its own...I am financing it, and that is our target as free stuff for the kids....We cannot say that ohh we are making money, then the kids are dying. ... Our focus is on the child malnutrition because at least since we started, we have been able to take care of many kids, they survive through that kind of intervention. So that is the most area of impact" (SM₈)

Established SMEs also initiated out-grower scheme as an impact strategy enhancing market access and sourcing materials from BoP communities, thereby promoting inclusive growth, income improvement and poverty alleviation. It reflects what Battilana et al. (2012) describes as a unified hybrid strategy

"....In 2016 we engaged some farmers in the five regions of Ghana...., we give you the seed, the high yielding seed, gave you the fertilizer, supply the insecticides... with the seeds, fertilizer and the chemicals, we expect that if for nothing at all, one acre, you can get 32 bags. So, you will give [us] 15 bags and then 17 bags will be your profit. Each farmer has ten farmers who work under him or her. In the three Northern Regions, we engaged 14... We were able to make on the average 95% recovery... We continued from then, 2017" (SM₅)

Profitability, expansion of business, growth, and contribution to economic growth as indicators of financial returns were pivotal to the sustainability (Blundel et al., 2018) of SMEs analysed. Financial returns included generating enough cash flows, profitability, turnover and growth to meet the needs of critical stakeholders. These stakeholders comprised funders and investors, government through taxation, statutory obligations such as a pension, health insurance and utility providers. For

some SME owners, the profit motive was essential for sustainability. Excerpts of interview extracts comprised:

“And the reason that we are for-profit is that I think it creates more of social impact than been a non-profit. I like been a for-profit because, first of all you know if you charge people something for what they are getting, then it is much more empowering to them” (SM₁)

“....as I said that we are running a sustainably profitable business..... in as much as we are helping people, we are also driving and generating revenues for the company ourselves” (SM₃)

“I am this business to make money and create an impact because it is not all of us that God gave us a chance. So, I always tell people that if God gives you a chance, you need to have it that it is not because you are special” (SM₉)

In addition to social impact and financial returns outcome realised by SMEs, the entrepreneurs and bank-based fund managers view themselves as agents. By way of finding solutions to societal problems, bank-based fund managers and SME owners individually and collectively catalyse solutions to societal problems. To summarise, evidence of the ‘how’ of strategy change that bank-based fund managers deploy as influences on high growth and established SMEs can be summarised as integrated, embedded, complementary and stand-alone. Evidence in subsection 5.5.1 illustrates the role of bank-based fund managers and SME owner-managers in BoP communities as agents of social transformation.

5.5.1 Social transformation role of Bank-based fund managers and SME owners

Social entrepreneurship theory suggests that entrepreneurs that innovatively through hybrid financing and business models which aims at social transformation represent social entrepreneurs (Kimbu and Ngoasong; 2016; Ruebottom, 2013; Zahra et al., 2009). Bank-based fund managers view this role as crucial because of the opportunity cost of such funding vis-à-vis risk-free investments and MNC financing. Some of these bank-based fund managers view it as a strategic policy of their banks in promoting citizenship agendas in Africa through such supports.

At the individual fund manager level, motivation as agents of solutions to societal problems is at the root of their financial decision making as well as the corporate level. Extracts of some interviews:

"And for me, changing people's lives is important to me. Then for the Bank, you know hearing what our management say, they are also massive on social impact ventures" (BB fund manager D)

"People bring their money; we should find a way of also trying to solve the problems of people, It is not just about money" (BB fund manager D)

Board level of the respondent banks also indicates a commitment to social impact and financial returns through SMEs as agents of solutions.

"I think especially in the Agric space, one of the things that transform that when we first make the opportunity to use blended finance. If we have social interventions that allow us to triple or quadruple our private funding" (BB fund manager A)

"So we have a dual mandate to contribute the economic development and integration of the sub-region as a global objective. Moreover, on the local scale as well to commit to helping alleviate poverty" (BB fund manager B₂)

"We have identified five critical strategic value drivers, which are supported by the under-listed performance metrics to grow the bank. 1. Client focus 2. Employee engagement 3. Risk and conduct 4. Financial outcome, 5. Social, economic and environmental outcome²"

In addition to the above, bank-based fund managers view their role as extending beyond job creation to include corporate social responsibility. An extract from bank-based fund manager reflects such a position.

"...we are employing people, we are contributing, we are doing our own CSR's, you know we are supporting businesses to be part of the PPP's," (BB fund manager B₁)

"The shear butter is currently about 30, and pub boilers are about 40 to 45 women. Even though they take the loans individually, they are in a group. They are assessed individually based on their loan application, but we put them in a group when we are dealing with them. These women have a whole warehouse built for them by the [aggregator] who buys the products. So, they come there in the mornings, the straw is paid for in advance, and so they come, and work and they go home. So, depending on the number of baskets you weave in a day, you get your money and move" (SME₇)

Social entrepreneurship literature and evidence from this section of the empirical chapter shows the role of bank-based fund managers and SME owners in finding solutions to societal problems. Overwhelmingly, these roles are catalytic represent important motivation and agency of these actors as social entrepreneurs in BoP communities. Section 5.6 summarises and concludes the chapter based on the objectives and emerging findings as they relate to theory.

² Quotation from the Annual Report, 2017 of Bank based fund manager C, pp.6

5.6 Chapter summary and conclusion

The chapter sought to present analysis and findings on the influences of bank-based impact funds on SMEs with the notion of influences from governance, strategy change and impacts (social impact and financial returns). Three theoretical arguments inform this study based on the theoretical framework. Firstly, as reviewed in Chapter 2, this research argues that the influences of impact investors can be analysed by examining the ways in which impact fund managers deploy governance mechanisms of ownership, control and board representation that are agreed between impact investors and BBF managers as the basis for ensuring that SME investees realise the dual goals of financial returns and social impact.. Secondly, with the emergence of impact investing, bank-based fund managers have changed their strategies or aligned to secure impact investor funding and financed different categories of SMEs which support BoP communities. Finally, the expected impact objectives from impact investors and bank-based fund managers consist of the deliberate pursuit of social impact and financial returns. This chapter has applied these theoretical arguments to the case of bank-based impact investments into SMEs in Ghana. While the objective of the study focused on bank-based fund and SME investees, evidence at the level of impact investor-fund manager was also presented. The reason is that bank-based fund influences on SMEs financed emanates from investor-fund manager influences.

The study uncovered two primary governance evidence, namely control and monitoring that impact investors deploy to influence BBF managers as agreed after the drawdown of capital commitment. These evidence on governance are expected compared to the theoretical arguments premised on ownership, control, and board representation, which is more associated with equity financing. Governance mechanisms deployed follows the strategy that impact investors seek to implement in achieving objectives of social impact and financial returns. Moreover, bank-based fund manager strategy change relating to how the impact fund will on-lend to SMEs in different priority sectors determine the type of financing instruments requested. Based on the five bank-based fund managers analysed, impact investor funding was typically debt for on-lending to SMEs in different sectors, especially BoP communities. Such evidence is not surprising because of regulatory and legislative requirements of the Banking Act 2004, now amended Act (930) 2016, which provides that commercial banks with universal banking license provide only debt capital. Governance findings uncovered that bank-based fund managers through

covenants and terms in financing agreements limit significant decisions and choices of SMEs financed with rights of prior consent.

Further, post financing relationship management through on-site visits and off-site telephone conversation, analysis of reports and transaction analysis ensure effective monitoring. The reason is because of the debt funding provided by bank-based funds, which are to be expected, determines the nature of governance mechanism applicable. Additionally, it emerged that pre-financing approval processes of bank-based fund managers had embedded governance checks which sift SMEs before the deployment of post financing control and monitoring mechanisms which has received little attention in academic literature. The unsurprising governance findings also indicate that bank-based cases studied do not have capital adequacy challenges which impact investment capital fills, as indicated in the introduction to the context.

Plausibly, access to debt capital from impact investors enabled them to improve liquidity and increase loan portfolio to SMEs that hitherto were constrained. Further, perhaps lower-tiered bank-based funds such as NBFIs, RCBs and MFIs would have provided alternative findings. It might not be the case due to a regulatory cap of 20% maximum equity in lower-tier bank-based institution in Ghana by a foreign investor to protect the sector from acquisitions and takeovers. In terms of SMEs, these governance findings re-affirm the status quo that many SME owners in Ghana prefer debt financing and are sceptical of equity due to the perception of potential take-over by the investors.

The analysis presented on strategy change shows evidence at the impact investor-fund manager level and fund manager-SME investee level. Strategy change or alignment findings uncovered that bank-based fund manager's secured impact investor capital including managed funds, co-financing, and subsidised funding, grants, guarantees and revolving loans. Strategy change of bank-based fund managers at the investor level facilitated collaborative funding of SMEs, access to long-term capital, and catalytic effect of SME financing and exclusive social sector capital initiatives. Strategy change findings reflect integrated, embedded, complementary and stand-alone models of realising the deliberate social impact and financial returns based on social entrepreneurship theory. These manifested at the fund manager-SME level in four ways of SME financing. These include linking MNCs, SMEs and farmers in BoP communities; social sector SME financing,

promoting financial inclusion, and facilitation of agri-business in Ghana. These findings, in one way, was surprising especially the agri-business sector, which declined within the past two decades due to foreign competition as a result of trade liberalisation, low funding allocation and lack of government support.

The transformational nature of this funding is still unclear considering the myriad of societal problems in Ghana reviewed in section 3.2. High growth, missing middle and established SMEs as for-profit social enterprise revealed strategy change. Such SMEs had access to subsidised and guaranteed funding, technical assistance support, experienced growth, and impact, legitimised their business and accessed alternative funding. The strategy of financial inclusion can be termed transformational. It is because of the upsurge of telecommunication companies setting up spin-off mobile financial services (MFS) companies and massive investment capital creating intense competition. Evidence from data emerging shows huge up-take in the adoption and usage of mobile financial services, digitisation, and linkages to other lower-tier institutions in financing. Government policies and regulations spearheaded by the Bank of Ghana in enhancing payments systems also aided this transformation in financial inclusion.

Impact investor expectation in terms of impacts (social impact and financial returns) analysed and presented includes the role of bank-based fund managers and SME owners in BoP communities. Evidence of financial returns uncovered includes generating enough cash flows, profitability, turnover and growth to meet the needs of critical stakeholders. Social impact evidence revealed job creation, out-grower schemes to facilitate market access, corporate social responsibility initiatives and health improvement. Deliberate pursuit of social impact and financial returns manifested in different types of strategy implementation by bank-based fund managers and SMEs including integrated, embedded, complementary and standalone (Battilana et al., 2012; Austin et al., 2006; Peredo and McLean, 2006; Seelos and Mair, 2005). While these strategies were not explicit from bank-based fund managers analysed, the corpus of data from SMEs financed in different sectors and geographies as well as how these SMEs are creating social impact reflected these strategies. These, therefore, raises the critical issue of whether social impact constitutes a significant consideration for bank-based fund managers that secured impact investment capital.

Critically, bank-based fund managers from the analysed data prioritise financial returns while the social impact in some of their transactions seems incidental and not deliberate. It reveals the notion of finance first investors from the impact investing literature (Hotchstadter and Scheck, 2015; Ormiston et al., 2015). Even in social sector financing, where social impact appears automatic and presence of impact investor guarantee incentives, minimal effort is made for relaxing any funding requirement. SME owner-managers explained the extent of bank-based fund manager fixation on financial returns. Social impact initiatives of SME entrepreneurs were commended by bank-based fund managers and sometimes celebrated in newsletters, promotional documents, and award ceremonies. Considering the wicked intractable problems reviewed in Section 3.2 of the institutional context, societal transformation is quite distant based on these funding. Indeed, these key sectors are receiving an allocation of impact investor capital through bank-based funds, especially the agri-business sector. The transformational effect required in terms of funding allocation for health, education, water, and sanitation to cause a systemic change in Ghana makes the current capital allocation negligible. Annual investment in each of these sectors to cause societal transformation exceeds \$2 billion compared to less than \$ 350 million annual capital allocation based on gross loans of 4.8% to agri-business sector (BOG, 2019). For transformational private sector-led development, infrastructure financing and funding of education, health, agri-business, and energy require substantial capital allocation by bank-based fund managers.

For impact investments through bank-based funds to realise the sea change of societal transformation which will reduce unemployment, provide more job opportunities and facilitate the growth of manufacturing businesses while reducing SME financing constraints, a private sector-led development banking model might be necessary, discussed in Chapter 7. The next section presents empirical analysis on capital market-based fund managers and investee SMEs

CHAPTER 6

Analysis of Capital Market-based Funds and investee SMEs

6.1 Introduction

This chapter applies the theoretical framework developed in Sub-section 2.8.1 of chapter two to uncover the influences of Capital Market-based (CMB) funds on investee SMEs through governance, strategy change and impacts. In applying the framework, the chapter present analysis and findings on governance at the investor-fund manager level and fund manager-SME investee levels. Besides, analysis and findings on strategy change and alignment at the investor-fund manager level and fund-manager-SME investee level were presented. Investor-fund manager level evidences the relevance of the theoretical framework in a global context and facilitates its application within the African context. Similarly, fund-manager-SME investee level showcases the local context-specific dimensions of the theoretical framework and possible extension to the regional context.

At the investor- fund manager level, findings showed that investors influence fund managers through the governance dimension of ownership. Governance dimension of ownership occurred in the form of minority ownership in funds, shareholder rights through a partnership agreement, and equal voting rights. Furthermore, the governance dimension of control emerged in the form of investors, limiting fund managers to sectors, geographies, and deal size. Clauses such as most- favoured nation clause emerged. Also, fund manager removal authority exemplified some of the control rights of impact investors on fund managers. Board representation at the fund level through the appointment of nominees or independent directors granted impact investors board and voting rights through the LPAC as the final governance mechanism. These rights enabled the most significant investors to appoint board nominees, LPAC approved conflict of interest issues and require fund manager compliance with the partnership, investment policy and other related agreements. Voting rights were available to all shareholders in the fund on matters that affect the partnership and shareholders agreement through a simple majority or 75% in situations such as accepting new investor to the fund.

Similarly, governance at the fund manager-SME investee level revealed essential findings. From ownership dimension of governance, CMB fund managers took minority interest with equity investment, secured voting rights and power to remove CEO in exceptional cases. Governance through control revealed control rights that CMB fund managers accrue and exert by way of minority protection clauses, milestone investments, right of first refusal for entrepreneur's equity stake and vesting to influence SME investees. Board representation constituted the third dimension of governance those fund managers deployed to influence SME investees. Findings indicated that board representation empowers fund manager voting rights and board rights when equity capital was invested in SMEs. These rights enabled fund managers to reduce information asymmetry, influence strategic decision, formalisation of governance systems and enhance the legitimacy of the investee for access to other resources from the financial landscape.

The analysis presented revealed evidence on investor-fund manager level strategy change and alignment where CMB fund managers aligned strategies to DFI's. Emerging findings from the analysis are evidence which reflects more of strategy alignment of fund managers rather than strategy change as suggested in the literature review. Fund Managers A, B, D and E, showed evidence of strategic alignment. The chapter also presented evidence on CMB fund manager influences on SME investee strategies to realise the social impact and financial returns. Findings uncovered that CMB fund managers modified and shaped strategies of SME investees through investment processes, post-investment monitoring and support, embedded ESG and social impact initiatives, as well as the integration of social impact and SDG alignment.

In terms of impacts (social impact and financial returns), analysis shows some evidence. The principal evidence of social impact is the focus on job creation by SME entrepreneurs and CMB fund managers. In addition, poverty reduction through access to credit, improved income through an aggregator and out-grower schemes and market access to clients in BoP communities were also uncovered. Financial returns evidence indicates revenue growth, profitability, repayment of capital deployed and interest for debt funds and contribution to economic growth through taxes, pension, and insurance schemes. Interrogating the role of entrepreneurs and CMB fund managers in search of a solution to societal problems

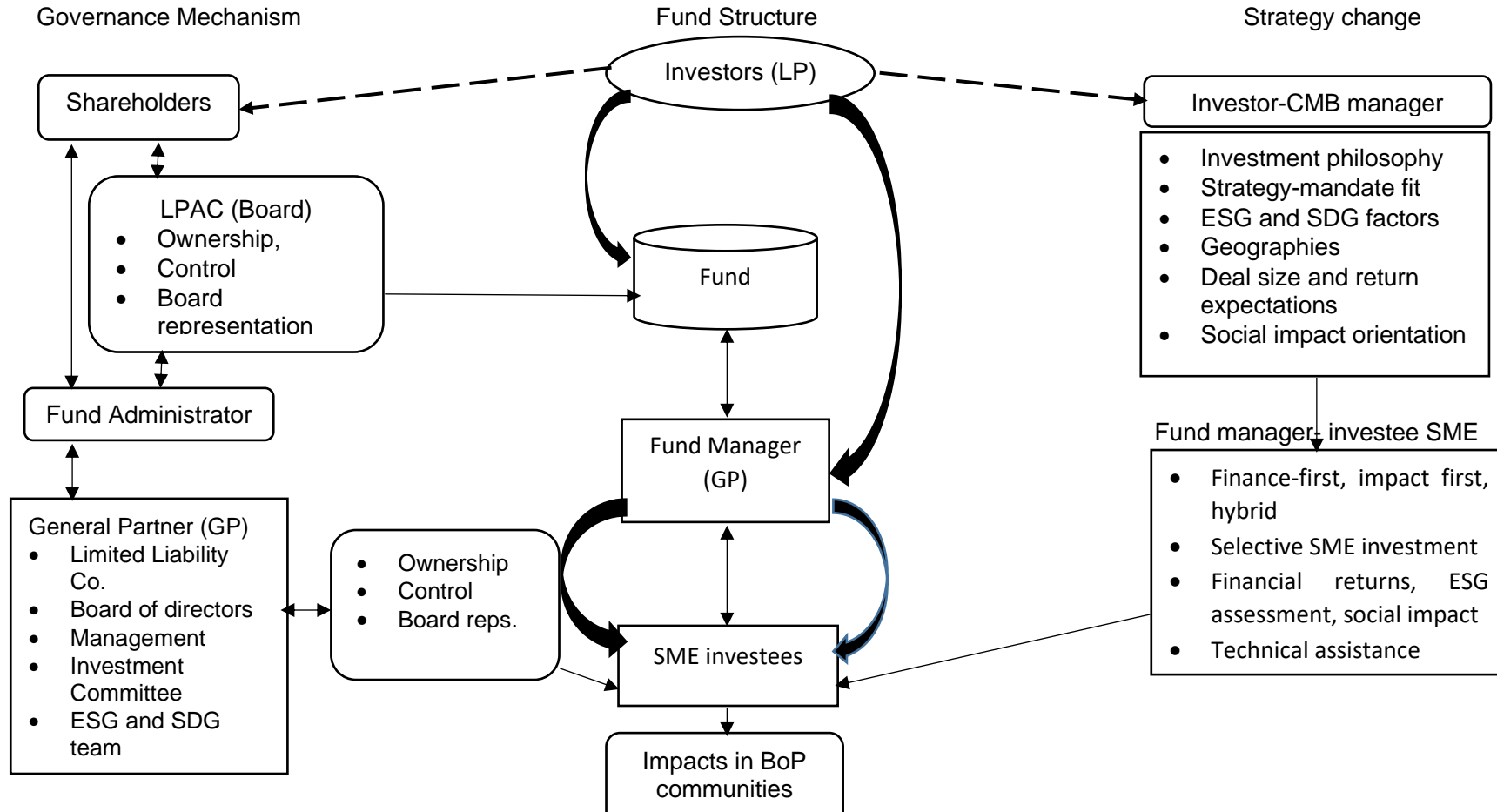
uncovered catalytic role, filling an institutional void, and support to BoP communities while promoting inclusion through access to information, credit, and energy.

The structure of the remaining sections of the chapter are as follows: Section 6.2 provides a summary of the theoretical argument that emerges from analysing the governance, structure and strategy deployed by CMB funds that invest in SMEs in Ghana. Specifically, it depicts the governance mechanisms employed at the investor-fund manager level, as well as fund manager-investee SME level. Further shows the structure of a fund and strategy change evidence at the investor-fund manager level as well as fund manager-investee level in deliberate pursuit of dual goals. All these are elaborated in subsequent sections of the chapter. Section 6.3 present analyses and findings on governance influences at the investor-fund manager level and between CMB fund manager and investee SMEs. Section 6.4 examines strategy change of CMB fund managers presenting evidence on investor-CMB fund manager influences and between CMB fund and investee in deliberate pursuit of social impact and financial returns. Section 6.5 presents evidence on how CMB fund managers and investee SMEs simultaneously pursue social impact and financial returns. Specifically, evidences on the nature of the social impact, variants of strategy on dual goals deployed and the role of the individual actors. Section 6.6 provides chapter summary and conclusion based on the objectives spelt-out at the beginning.

6.2 The Governance, structure and strategy change of capital market-based funds

This section outlines the governance arrangements, fund structure and strategy change process for CMB funds. It also identifies the key actors and how they are inter-related. It is the aim to provide the necessary context/background to the more detailed analysis that follows. Figure 6.1 represent an emerging theory depicting the influences of impact investors on CMB fund managers and SME investees from the perspective of governance, strategy change/alignment and impact, forms the foundation of the fine-grained details in the subsequent section.

Figure 6. 1 Capital Market Based Fund Governance, Structure and Strategy Change



Source: Theorising the influences of CMB fund managers on investee SMEs based on author's analysis

Capital Market-based (CMB) funds are incorporated as investment funds to realise critical objectives of the actors, namely financial returns, social and environmental impact. The emerging theory on CMB funds were based on an analysis of five fund managers and four investors representing Development Finance Institution (DFI). Figure 6.1 exhibit the typical structure of an impact investment fund, capital commitment from investors (LP), fund managers (GP) to set up the fund and theory of how CMB fund managers influences investee SMEs.

Recalling from the integrated theoretical framework which draws on four theories from six sets of disciplines in Section 2.8, the study argued that a theoretical relationship exists whereby a governance mechanism of ownership, control and board representation is applied by impact investors based on strategy change agreement with fund managers. Subsequently, fund managers employ the agreed governance mechanism with impact investors for investee SMEs to realise social impact and financial returns. Besides, impact investors expect strategy change by fund managers and investee SMEs in a deliberate pursuit of impacts in BoP communities which manifest at the fund manager- investee level. Having empirically applied the integrated theoretical framework within the research setting of Ghana, the study theorises the influences of CMB fund managers on investee SMEs in figure 6.2. The emerging theory builds on four main theories; agency theory of governance, strategy adaptation/alignment theory, social entrepreneurship theory of integrated/hybrid strategy and impact investing theory.

The dotted arrows (— — ➔) means that based on an impact investment strategy change presented to impact investors by CMB fund managers, capital is committed to a fund post-signing of shareholders agreement, stipulating the governance mechanism (ownership, control and board representation) to be deployed in line with agency theory. Agency theory of governance between impact investors (limited partners) and CMB fund managers (general partners) emerge at the fund level. Impact investors as majority shareholders commit capital to the fund as principals exert influence on CMB fund managers through the governance mechanism depicted in figure 6.2. These governance arrangements are deployed based on an impact investment strategy change presented by CMB fund managers and agreed among the parties at the fund level. Strategy change builds on strategy adaptation/alignment theory by CMB fund managers to secure impact investor

capital through investment philosophy, strategy-mandate fit among others. These evidences apply at the global level and country-specific level. The various arrows in the emerging theory include: (↕) shows interaction, cause-effect relationship and reporting lines; (↓) direct effect and manifestation in relationship. For example, in Figure 6.1, strategy change at the investor-fund manager level, manifest at the fund manager-investee SME level. The bolded arrow (↪) reflect capital commitment by investors to the fund and (↩) illustrate mandate from investors to CMB fund manager in accordance with shareholders agreement. Similar, governance mechanisms (ownership, control, board representation) agreed at the fund level is applied at the CMB fund manager level to influence SMEs to realise social impact and financial returns. Internally, CMB fund managers establish core teams and structures as enablers for deploying the governance mechanisms agreed and effective implementation of strategy change at the fund manager-investee level. Social entrepreneurship theory provides insights on how CMB fund managers deploy strategy change that embed social impact and financial returns as influences on SMEs in BoP communities. Thus, strategy change at the fund manager-investee level reflect manifestation of finance-first, impact-first intentionality, selectivity of SMEs that integrate social impact and financial return strategies and support through technical assistance to enable investees to deploy an impact investment strategy. Finally, the interaction from CMB fund managers and investee SMEs through governance and strategy change ultimately creates impact in BoP communities. This is central to an impact investment theory which posits that an investment that deliberately seeks measurable social impact and financial returns could transform societal problems in poorer communities. Thus, impact investment capital committed via CMB fund managers for investment in high growth, missing middle and established SMEs can potentially realise the expected social impact and financial returns.

The analysis showed that investors to these funds comprising DFI's, private investors, investment banks, pension funds were situated across the world and incorporated funds were registered in Mauritius and other tax havens for fund managers with a regional and country-specific focus to invest. The purported reason for registering funds in tax havens from the perspective of one investor respondent *"it is typically Limited Partners and incorporated in a jurisdiction that is sort of protected from double taxation, i.e. Mauritius and the likes"* (Investor, D).

Usually, the fund has a life cycle of ten years, consisting of five years investment period and another five years for harvesting (payback) the invested capital. CMB funds can be categorised as debt or equity fund and generalist or specialist fund. Typically, an asset management company called the general partner (GP) initiates the setting up of the fund and solicited investments from local and global institutional investors, generally known as limited partners (LP's). Three essential distinctions were noted between the fund and the fund manager governance. First, the fund has a governing board referred to as Limited Partners Advisory Council or Committee (LPAC) comprising the limited partners who contributed to the fund which is separate from the governing board of the fund manager. Second, the fund entrusts investment mandate to the general partner or fund manager subject to the signing of limited partnership agreement among the limited partners and the fund manager. Finally, critical decisions were the preserve of the LPAC, such as the extension of the investment horizon, transactions outside the scope of investment policy and more significant transactions exceeding the deal size of the fund. For this study, the term, limited partners, and impact investors were used interchangeably, while fund manager and general partner were synonymously applied.

Finance first and impact first represents two distinct categories of investors reviewed in Subsection 2.1.1 of chapter two. These categories of impact investors have different expectations from intermediaries, and SME investees explained in the literature review. Evidence of CMB funds described as finance first or impact first based on analysis of data from five CMB fund managers and four investors overwhelmingly consist of seven conditions:

1. Returns expectations ii) Fund structure iii) Ticket sizes iv) Funding sources v) Geographies vi) Sectors and vii) Technical assistance (TA) facilities. Table 6.1 shows the distinctive characteristics of finance-first and impact-first CMB funds.

Table 6. 1 Distinctive Characteristics of Finance first and Impact first CMB funds

	Description	Finance First	Impact first
1	Returns expectation	Market returns usually internal rate of return (IRR) of 20%-30%	Below market returns, typically maximum IRR of 15% and relatively high social impact
2	Fund structure	Debt and infrastructure fund exceeding \$50 million	Equity fund, relatively smaller fund size, up to \$20 million
3	Ticket Sizes	Average ticket size exceeds \$5.0 million USD	Ticket size of \$0.5 m to \$5 m USD
4	Funding Sources	Development Institutions (DFI's), Private Investors, Global Universal Banks, Pension Funds	DFI's, Foundations, Family Offices, Social Venture Funds, Philanthropic, Development Agencies
5	Geographies	Regional i.e. West Africa, East Africa, North Africa	Single or multiple countries
6	Sectors	Infrastructure, Commerce, Distribution, Housing, Transportation.	Education, Healthcare, Microfinance, Agri-business, Manufacturing, Water/Sanitation
7.	Technical Assistance (TA) facilities	Relatively low	High component of TA for capacity building of fund manager and SME investees

Source: Authors illustration from reports (DFI's and fund managers), and websites.

Derivation of these seven variables comprised a series of steps, processes, and judgment. First, an examination of the impact investing literature (Rajan et al. 2014; Hotchstader and Scheck, 2015; Glanzel and Scheurle, 2015; Ormiston et al., 2015) were conducted. Then evidence from this previous literature was contrasted with coded documentary³ evidence mainly impact reports from CMB fund managers. Some of these documentary data coded and analysed comprise annual report 2016, impact report 2017 and ESG report 2017 of Fund Managers A and B accessed from their website. Other reports and secondary of fund managers B, D and E were also analysed. Insightful observation from these seven variables from the empirical data concerns the extent of investor-driven variables such as their priority sectors, expected impact and motivation for committing capital to a fund. Moreover, some fund managers had different funds or asset under management (AUM) either

³ Documentary evidence utilized comprised:

Fund Manager B- Annual ESG and Impact Report 2018 sourced on 20/09/2018; Leaflet about the group dated Nov. 2016 sourced from their website on 25/12/2017; Poster about the group's operation dated March 2016 sourced on 25/12/2017 from their website

CM4- Website information pertaining to their operations, investment approach and strategies sourced on 23/12/17.

Emerging Market Private Equity Association (EMPEA) ESG community case study reports on private equity funds

concurrently or sequentially with different concentration of finance first and impact first investors.

These categories were empirically interrogated because such positioning and framing by investors operationally affect CMB fund managers in terms of governance, the strategy pursued, and impacts (financial and social impact) expected. Impact investors commit capital to various funds and delegate the investment mandate to CMB fund managers. It is therefore essential to understand the type and categories of impact investors committing capital to these CMB fund managers. This, in turn, reflects how CMB fund managers positioned themselves in practice. The composition of these categories of impact investors and respective capital commitments directly influence the governance, strategies, and outcomes of CMB fund managers. To this end, analysis of finance first and impact first capital commitment to the respective funds reveals that investors in a fund typically have different investment objectives and expected outcomes. For these latter reason's literature uncovered two categories of impact investors, namely finance-first and impact-first (Hotschtedter and Scheck, 2015, Ormiston et al., 2015). Empirically, three out of the five CMB fund manages labelled themselves as finance first investors based on the type of investors who committed capital to the funds.

“The previous fund was a bit of finance or returned oriented. The ideology around it was to meet the investors return expectations”. – (Fund Manager A)

“...aims to partner with business founders and management teams that embody this great entrepreneurial spirit to grow SMEs into profitable sustainable businesses that contribute to economic growth”- (Fund Manager C⁴)

“As a matter of fact, we don’t brand ourselves as impact investors. We invest to make financial returns, but we believe that the sectors that we invest in whether you like it or not will be making impact. Finance first, impact will follow.”- (Fund Manager D)

The remaining CMB fund managers positioned themselves on the equal pegging of a balance between finance first and impact first. These managers acknowledged the possibility of some investees generating more financial returns than impact. The following excerpts of interview transcripts provide evidence:

“I would say it’s balanced. I don’t think we have defined ourselves along that spectrum. I think we, to our investors, they know we are impact fund, but they

⁴ Source of the quotation is from the website of the CMB fund manager anonymised as Fund Manager C.

also know that we deliver returns. And we deliver returns net IRR of about 10% to 12% to 15%, it's a range"- (Fund Manager B).

"They are all equal for us, they are the same. We always try to balance them, impact and financial returns.. But across board, what we want to see is that aggregately we have 50%/50% but obviously some companies are having better returns financially than others"- (Fund Manager E)

For one CMB fund manager, the issue of labelling as finance first or impact first depends more on the type, categories and return expectation of investors towards a fund under management. Consequently, if the fund under management is more financial return-oriented due to more investments from private investors, then it becomes finance first. However, in circumstances where a mix of investors, then a balance of finance first and impact first strategies become applicable.

"But the current fund has a balance. So, we drive the two hence the sectors that we have chosen. We are putting money in areas where we think that there will be automatic impact"- (Fund Manager A)

In summary, investor motivation, priority sectors or impact-focused areas ultimately influenced the remaining variables evidenced in Table 6.1 above. Emerging from the analysis, labelling as finance or impact first by a fund management company appears to differ from reality. Fund manager B, for instance, explored impact-first objective and outcomes in African countries targeting early-stage investee SMEs through their first fund. However, with substantial capital commitment from private investors and some DFI's for long-term infrastructure projects, finance-first objective and outcome dominated. Another example is Fund manager D, who previously represent more of finance-first when they managed \$11m size Fund I. Early-stage SMEs in sectors such as housing, education, building accessories, financial inclusion constituted priority sectors. In managing Fund II, Fund manager D still labelled themselves as finance first; however, they represent more of an impact first fund manager with substantial technical assistance facilities and other indicators evidenced in Table 6.1. Finally, interview transcripts and secondary data of CMB fund managers categorised as finance first and impact first and investees analysed are summarised in the following text.

Finance First CMB fund managers

Fund Manager A-

"The previous fund was a bit of finance or returned oriented. The ideology around it was to meet the investors return expectations".. In terms of the

sectors, under the previous we used to have an open or open to most sectors as long as they are not no-go areas...deal size was \$50,000 to \$1.5 million “Our clients⁵ represent businesses in a variety of sectors including health, education, energy, wholesale, and manufacturing”.

Fund Manager B- [Fund III] is “a long-term impact investment fund designed to develop and fund smaller size new infrastructure projects. Tackling the missing link in smaller infrastructure (€10m<Capex<€50m)”

Fund Manager D – “Finance first, impact will follow... You need sustainability absolutely, so you will not just go around saying that you are impact investors

Impact First CMB fund managers

Fund Manager A- “For these sectors, education, health manufacturing, Agro-business and other key sectors. Principally, the impact is more. Because they are impact-driven sectors. We are putting money in areas where we think that there will be automatic impact.... the focus is mainly education because we see a lot of impact there, we look at health, Agro business and manufacturing, we see a lot of impact. Deal size ... \$100,000 to \$1.5 million”

Fund Manager B - [Fund I] is an evergreen and “impact-first” company with a solid financial track record in Africa. Since 2002, [it] has invested EUR 11 Million in 25 SMEs and in 8 micro-finance institutions (MFIs) in 10 African countries. The portfolio has performed well and is highly diversified: agribusiness, essential services, manufacturing and more.

Fund Manager D - “The reality is that if you look at our model, in pursuing the financial returns automatically, there is impact..... we say money first however, before you can achieve that money, it will come with an impact story as well. And as we have said the sectors we have chosen..., private education, financial services, health, housing, hospitality and food services... are impact sectors”

Fund Manager E- “...whole idea is to identify social enterprises that are addressing the needs of the poor, early stage businesses that are typically very risky, to achieve two objectives, financial returns and also we create a social impact dimension.....for now we are focusing on Agriculture and Renewable energy... starts from \$350,000 dollars up wards and we invest up to about \$2,000,000.00”

To conclude, emerging evidence from the analysis presented so far indicated that fund manager A and D represent finance-first investors. Fund manager E is the most qualified impact-first investor. The remaining fund managers C and B represent a hybrid of finance-impact first.

These categories of finance-first, impact first and hybrid impact investors are also reflected in the types of investee SMEs targeted. Finance first CMB fund

⁵ Fund Manager A SME leaflet

managers target missing middle or established SMEs generating stable cash flows, revenues and returns on invested capital with little social impact. Impact-first focus on early-stage and high-growth potential SMEs in agribusiness, education, water, renewable energy sectors. For example, Fund manager E committed equity capital of \$1 million to an established and high growth potential SME engaged in off-grid energy distribution in Ghana. Hybrid finance-impact first fund managers have a mix of investee SME portfolio contributing differently to financial returns and impact in defined sectors and geographies. Fund manager C invested almost \$0.9 million equity capital, and additional debt capital of \$2 million in an established SME is engaged in pineapple exports to clients in Europe, experiencing debt-burden from banks in Ghana. Fund manager D committed \$0.9 million to relatively small and high growth potential SME providing market access to farmers in BoP communities. These categories of SMEs targeted by CMB fund managers operate in high impact sectors with embedded financial returns and social impact in their strategy. Section 6.3 document further analysis of investor influences on fund managers to realise the social impact and financial returns from governance.

6.3 Nature of Governance mechanisms

6.3.1 Dimensions of governance

Governance of CMB fund refers to ownership, control and board representation (Cumming et al., 2010; Connelly et al., 2010; Gompers et al., 2016) with analysis of five CMB fund managers. These governance dimensions encapsulated through the signing of different sets of agreements stipulating ownership, control and board representation (Gompers and Lerner, 2001, Cumming et al., 2010; Connelly et al., 2010; Gompers et al., 2016) were examined at the investor-fund manager level in subsection 6.2.2. Similarly, subsection 6.2.3 also examines the governance dimensions mentioned above at the fund manager-SME investee level.

To realise fund objectives, analysed data shows that investors to a fund authorise fund managers to deliver on specific mandate concerning expected outcomes of social impact and financial returns embedded in different sets of agreements. Such agreements stipulate the governance mechanism through which investors influence fund managers to deliver on the expected mandate. Based on the corpus of data analysed from primary interview transcripts and documents, major investor-fund manager agreements include the shareholder's agreement,

legal documentation, investment policy, subscription agreement, management agreement and other subsidiary agreement. Two primary governance mechanism that investors deploy to influence fund managers comprised the shareholders, and LPAC with provisions explicit stated in the shareholders' agreement.

Responses from two institutional investors and documentary evidence illustrates the role of limited partners as shareholders. According to these respondents and documentary-evidence examined, shareholder approval authority address issues which require modification or permanent change to the fund. Besides, issues relating to changes to the limited partnership agreement, investment policy and admission of new shareholders to the fund falls within the domain of shareholders. Necessarily, as the highest governance approval authority, any issue which would cause a material change to shareholders agreement warrants their authorisation. In executing their mandate, a minimum of 75% of shareholders and sometimes a simple majority of 51% approval is expected based on the corpus of data analysed. The Institutional Limited Partnership Association (ILPA, 2018) principles of stipulate that

“The LPAC generally should be made up of seven to eight voting representatives of limited partners, with larger funds having as many as 12 members, representing a diversified group of investors. A reasonable number of non-voting observer seats should be made available to certain limited partners” (ILPA)

The next Subsection 6.2.2 present analysis and findings concerning impact investor influences on fund managers along the governance dimensions of ownership, control, and board representation. Similarly, Subsection 6.2.3 present analysis and findings on governance mechanisms at the fund manager-SME investee level.

6.3.2 Investor - Fund manager Governance

The impact investor-fund manager relationship as already established in earlier sections are structured within a governance framework towards realising objectives of financial returns and social impact. Three governance dimensions of ownership, control, and board representation that investors deploy to influence fund managers were analysed and presented as follows. Table 6.2 represents the data structure at investor-fund manager level reflecting governance dimensions of ownership, control, and board representation.

Data analysis proceeded through content analysis of keywords using N Vivo 11 Pro, recoding, reclassification, and examination of concepts representing governance. Further details are elaborated in section 4.7.1.

Table 6. 2 Data structure of Investor-Fund manager Governance Dimensions

First Order Concepts	Second Order Concepts	Aggregated Dimensions
Shareholder; the amount of committed capital; part-owner of the fund; voting rights; participation in voting; fund manager selection decision-making; signing of subscription agreement.	Shareholder mandate	Ownership
Opportunity to appoint nominees to LPAC; serve on board subsidiary committee e.g. audit, investment, impact; demand for accountability; conflict of interest resolution.	Board appointment mandate	
Parameter setting, limit on maximum deal size, authorization for excess deal size, agreed sectors and geographies, exclusion list, removal of fund manager	Investment policy related	Control
Environmental, Social and Governance (ESG) risk factors, compliance with IFC performance standards, ESG action plans implemented,	Institutionalised ESG standards	
Quarterly, semi-annual and annual reports; different types of reports, generic and specific; financial and non-financial; impact and ESG report on investees	Reporting and accountability	
Unique covenants for different investors, side letters or agreement, investor country of origin preference, most favoured nation clause	Special rights	
Board seat; attendance of quarterly meeting; acting in fiduciary capacity; limited partner protection;	Shareholder rights	Board representation
Approving conflict of interest transactions; adherence to investment policy; demanding agreed reports and timing; ESG and impact standards; quarterly portfolio review; one annual on-site visit	Compliance with Shareholder agreement	
Partnership, contractual and transactional roles; promoting fund transparency; access to auditors; disclosure on general partner operations	Board member role	

Source: Authors illustration from PhD data analysis

Ownership of a fund typically involves committed capital which grants rights of part-ownership to a fund through a stake in the future returns and principal invested at the maturity of the fund. While respondents failed to provide evidence of the percentage of ownership in a fund, key phrases comprising "invest in funds as a limited partner" (Investor A), to "subscription agreement" (Investor A), and "some institutions that has 10% of the fund" (Fund Manager B) were evident from the data. Consequently, limited partners and the general partner make claims to the returns from the fund based on the amount of capital committed. This is based on the structuring of a fund as evidenced by these interview transcripts.

"the fund is typically structured as limited partnership where assuming the fund has ten investors, so they have ten limited partners (LP). Then you have one of the LPs which is called the General Partner (GP). The GP will typically have a part of the fund as well, maybe 5% of the overall fund"- (Investor D),

"At the apex is the shareholders i.e. the investors of the fund"- (Fund Manager D)

Altogether, analysed data showed that the investors to the fund constitute the shareholders of the fund, which entitle them to ownership stake. Accruing rights of ownership through shareholding entitle largest shareholders to appoint nominees to form the LPAC, which represent the board of the fund.

Shareholding, which guarantees ownership stake in a fund from the analysed data, is secured through a subscription agreement. Based on the analysed data, subscription agreement captures the ownership rights of shareholders to the fund indicating the amount of capital committed, class of shares, early call date for the first tranche of capital and last call date for the final amount committed. Excerpts of interview transcripts include

"the subscription agreement which is the kind of forms that you sign to get your investment in the fund for each person"- (Investor B)

"Investors respond to the capital calls on time, accounts are delivered on time"- (Fund Manager D)

Finally, the subscription agreement provides financial returns and social impact expectation from fund managers. Table 6.3 shows the first-order, second-order concepts of coded data with aggregated third order concept dimension of ownership.

To conclude, three primary evidence emerged from the analysis in terms of the ownership dimension of governance at the investor-fund manager level. First,

all impact investors with a capital commitment to a fund had ownership which warrants equal voting rights. None of the investors had a veto on voting as shareholders. Second, largest investors to the fund had the right to appoint representatives or nominees to the LPAC of the fund. Third, shareholders had final approval on matters relating to amendments of the shareholders' agreement through a supermajority of 51% or sometimes 75%.

Extant literature shows that investors control fund managers through restrictive clauses and covenants in the partnership agreement (Gompers and Lerner, 1996; Kaplan and Stromberg, 2003; Scarlata and Alemany, 2010; Metrick and Yasuda, 2011). Consistent with the literature, governance dimension of control from the analysed data at the investor-fund manager level reveal unique conditions and covenants stipulated in separate agreement among the actors. Notable phrases consisting of *"the limit that we can operate"* (Fund Manager D), *"investors set the parameters"* (Fund Manager A), to statement as *"in that agreement, there will be the dos and don'ts from the investors to the fund manager"* (Fund Manager A) *"how much percent they can invest in this sector"* (Investor B) empirically evidenced investor control.

The results showed that shareholders agreement which embodies other subsidiary agreements limit the behaviour, actions and activities of fund managers reflecting the governance dimension of control to realise the social impact and financial returns.

"For instance, setting limits, they have a reason for setting that limits, upper and lower limits, so you do not exceed the target market.... you are given that latitude within the confines of the agreed parameters which has been pre-discussed with the fund."-(Fund Manager A)

"particularly also around the ESG, you know, we are very much around saying that this is our minimum benchmark of what we require, can you meet or be able to execute an investment for us, you need to reach the minimum benchmark we have"-(Investor, B)

In analysing the corpus of data, keywords and concepts reflecting control were coded as first-order concepts from interview transcripts from investors and fund managers, documentary reports and brochures from the Institutional Limited Partnership Association (ILPA). These first-order concepts were further grouped

into unique categories in a tabular form, reclassified to ensure that they described and explained the evidence of control. These groupings and categories were further coded into higher and second-order concepts based on existing literature. After a coding and thorough examination of these second-order concepts, four significant categories showed evidence of control. These four categories of control comprised clauses in investment policy, the institutionalisation of ESG risk (known as IFC performance standards), reporting obligations and exclusive rights. Finally, the aggregated dimension of control was assigned to the four second-order concepts, as shown in Table 6.2 above.

Four primary evidence emerged from the data analysis on the control dimension of governance. First, impact investors through restrictive clauses limit fund managers to specific sectors, geographies, and transaction amounts. Second, through reporting and accountability requirements, investors demand annual reports on fund valuation and performance, portfolio performances and impact reports and general partner information. Third, the power to remove the fund manager for material breach of partnership and shareholders agreement. Finally, special reporting arrangements "most favoured nation clause" impose responsibilities on fund managers to provide unique reports to some investors.

Evidence from respondents concerning the governance dimension of board representation from institutional investors and fund managers were consistent with extant literature. Overwhelming responses from three investor participants and four fund managers concerning governance mechanism at the investor-fund manager level centred on shareholders and limited partnership advisory committee (LPAC). Some responses noted ranged from "*shareholder decision body*" (Investor A) and "*limited partner advisory committee*" (Investor B), to "*separate board for the fund*" (Fund Manager D) and "*pool of investors*" (Fund Manager A) as the fundamental governance mechanisms. Board representation comprises nominees of investors or appointed independent directors.

Shareholders constituted the highest governance decision making authority that investors deploy to influence fund managers. More importantly, the governance dimension of board representation consisted of representative of shareholders constituting what is known as the limited partnership advisory committee or the board. Typical interview transcripts worth noting were:

"...there are essentially two kinds of channels of action. One of them is the advisory board, and the other one is shareholder decision... the advisory committee is a body of appointed nominees usually from the larger investors in the fund or the let us say the sort of strategic, sensitive ones... Their responsibility is to act in the fiduciary interest of the fund, and they are there to make sure that the fund is operating properly and per the documentation and that sort of things" (Investor A)

"The investors appoint a board" (Fund Manager D)

"And governance really happens via what we call the Limited partner advisory committee (LPAC) or limited partner advisory board (LPAB)... you know the way the funds are set up, the limited partners are the investors, when they secure a seat on those boards, that meet quarterly to review the portfolio and essentially that is how we govern the fund" (Investor B)

"We have a governing body in the investors which from time to time, meet the management of the fund. it is like a pool of investors coming together. ... the fund is accountable to those investor representatives that have been appointed" (Fund Manager A)

From the analysed interview transcripts, it was evident that the LPAC of the fund on average is limited to nine nominees of large investors (comprising nominees or appointed independent directors) acting in a fiduciary capacity on behalf of all the limited partners and or shareholders to the fund. However, for more substantial funds, a maximum of twelve (12) nominees of large investors pertain as an acceptable best practise⁶.

LPAC address issues that affect effective delivery of investment mandate of the general partner and members have voting rights from the analysed data. Two institutional investors highlighted the core LPAC responsibilities which entails approving conflict of interest transactions and ensuring that fund managers actions are investment policy compliant (i.e. sectors, maximum ticket size, agreed geographies or countries).

⁶ Institutional Limited Partnership Association (ILPA), Private Equity Principles

"an attribute to the fund is a limited partnership agreement or the shareholder's agreement that stipulates, the 100- or 150-page agreement which stipulates everything related to the fund and its governance" (Investor B)

"Limited Partner Advisory Committees should have the core responsibilities of approving transactions that pose conflicts of interest, such as cross-fund investments and approving the methodology used for portfolio company valuations" (ILPA, 2018)

"LPAC meetings should be held in person at least twice a year with an option to dial-in telephonically"- (ILPA, 2018)

Documentary analysed evidence further showed that LPAC has authority for approving partnership expenses, disclosure on how fund managers are adding value to SMEs through technical assistance facilities. Moreover, the LPAC influence fund managers to comply with reporting requirements, quarterly, a semi-annual and annual report on the fund and impact. In analysing the data, contrasting the function and responsibilities of these two-governance mechanisms further explains how investors deploy governance mechanism to influence fund managers. Thus, the two levels of governance decision-making mechanisms focus on a specific aspect of the fund and responsibilities of fund managers aimed at realising the expected objectives of financial returns and social impact.

In conclusion, based on the evidence presented above, four primary evidence about board representation at the investor-fund manager level were uncovered. First, largest investors to the fund appoint nominees or independent directors to the LPAC acting in a fiduciary capacity for all investors and have voting rights. The LPAC is distinct from the board of the fund manager. Second, the LPAC of the fund approves conflict of interest transactions and do not participate in investment decision making of the fund manager. Third, the board of the fund or LPAC ensures fund manager compliance with the partnership agreement and review the performance of portfolio investees. Consequently, the board can recommend to shareholders for fund manager removal when material breaches occur. Finally, LPAC approves fees and carry-interest of fund managers subject to independent auditor certification.

6.3.3 Nature of Fund Manager - investee SME Governance

Governance at the fund manager-SME level primarily aims at ensuring prosecution of investment objectives of financial returns and social impact. Mainly, SMEs providing products and services to meet the needs of BoP communities (Ashta, 2012; Rajan et al., 2015) constitute key priorities of impact investors (Ormiston et al., 2015; Daggars and Nicholls, 2016). Responses to the question of governance mechanism to influence SMEs focused on board appointment by four out of five fund managers interviewed. Similarly, many of the SME participants explained how fund managers have guaranteed improvement in their governance system. Analysis of the available data showed such phrases ranging from the "*right governance checks*" (Fund Manager B), "*formalisation of governance*" (Fund Manager A) to "*we insist on a board seat*" (Fund Manager D) were provided by respondents. The ensuing presentation and analysis focus on how CMB fund managers through governance dimensions of ownership, control, and board representation influence SMEs to achieve social impact and financial return objectives. Table 6.3 shows the data structure of how CMB fund managers influence SME investees through the governance dimensions of ownership, control and board representation explained earlier in subsection 4.7.1

Table 6. 3 Data structure of CMB-SME governance

First Order concepts	Second Order concepts	Aggregated Dimensions
Minority interest, equity, profit sharing, minority protection clause, board seat	Shareholding	Ownership
Agreed valuation, equity investment, quasi-equity instrument, 50% debt and 50% equity;	Valuation and stake	
Consent requirement; impact clauses; minority protection; right of first refusal; pre-emptive rights	Control structure	Control
Staged financing; milestone investment; metrics attained	Control allocation efficiency	
Right governance processes; board seat; governance checks; formalisation of governance; board level influence; board restructuring; increase formalism;	Member role	Board representation
Voice on strategic decision; approve decisions; discuss strategy; removal of MD; implement accounting system	Strategic level influence	
Reporting-quarterly, semi-annual and annually; operational and management reports; organisational transparency; financial reports; MIS for decision-making; strengthening accounting infrastructure; regular reporting	Reduce information asymmetry	
ESG risk assessment and action plans; social impact; regulatory compliance	Risk assessment and mitigation	

Source: Authors illustration from PhD data

Four out of five of capital market-based respondents representing 80% CMB sample and documents analysed showed that fund managers acquire only a minority interest in SMEs. Presumably, minority stake in SMEs eliminate the perception of take-over or acquisition of these SMEs, which warrant undertaking the day-to-day management of operations like early-stage ventures (Bhatt and Ahmad, 2017). Besides, many of these SMEs are at the expansion stage of growth and managed by an established entrepreneur with more in-depth insight into the venture. Four of the five fund managers acquire minority equity investments in the SMEs supported. Extracts of interviews include:

"As an equity holder, you have to because you have ownership you are compelled to create value"- (Fund Manager, B)

"They [Fund Manager, C] hold almost 48%. For them, it is in two folds. The investment in debt and that of equity" (SME₅)

".... we are always minority investors.... we use a combination of equity and quasi-equity instruments...and it is a function of the size of the company we invest in and its cash flow that determines which instrument we use" (Fund Manager, D)

Equity investments and quasi-equity instruments deployed from four out of five capital market-based fund managers as minority shareholders facilitated access to a board seat and appointment of independent directors stipulated in conditions precedent.

Fund managers further alluded to significant reasons for a minority ownership stake in SME investees.

"We usually insist on that as a minority interest position, and so this is important for us so that we can have a say on some key strategic items" (Fund Manager, B)

"We are always minority investors...relationship is very key in what we do in order for you to add value.... We do not sign an agreement with you or invest in the company and leave and just expect you to deliver."- (Fund Manager, D)

"Typically, because of the strategy we have, it is more of equity than debt...we are trying to, what we are doing is to help early-stage businesses to scale. Without our support, it will be challenging for them to use the typical corporate high street facilities that is available"- (Fund Manager, E).

Primary evidence emerging from the ownership dimension of governance at the fund manager-SME level comprised: First, for equity funds, fund managers take significant minority interest or stake in SME investees. Second, minority interest in these SME investees is up to 49% shareholding and fund managers have voting rights on strategic decisions at the board level based on their minority interest. Third, a combination of minority equity stake and debt investment guaranteed fund manager C majority rights in some SME investees. Such majority rights enabled the fund manager to pass a vote of no confidence in the CEO and subsequent removal at the AGM of the SME investee.

Previous literature shows that investors in high growth and missing middle SMEs embed key clauses, restrictive terms and conditions in shareholders' agreement that assure control over critical issues over the investment period (Cumming et al.,2010; Scalata and Alemany,2010). Ultimately, the inclusion of these terms and conditions are aimed at curbing opportunistic behaviours of entrepreneurs, avoid mission drift, and realise investment objectives. While CMB fund managers did not elaborate much on control mechanism such phrases as *"consent requirement"* (Fund Manager, B), *"minority protection clauses"* (Fund Manager, E), to *"milestone investment"* (Fund Manager, D) and statement like *"funding subject to key metrics attainment"* (Fund Manager, D) were standard. Excerpts of interview transcripts from fund managers comprised:

"There are maybe these key security decisions that we will want to have a say in because we are a minority.... These are our way of influencing things, this way or that way.

"Moreover, these are our terms" (Fund Manager, B)

"so, our agreement will typically have minority protection clauses; we are always minority investors.... Which will have certain things that will require our consent before that can be carried out" (Fund Manager, D)

"the other thing that we try to do as part of the agreement and part of board members is to cap the expenditures of management"- (Fund Manager, E)

Based on the governance dimension of control presented, key evidence includes: First, restrictive clauses and terms protect fund managers and compel SME owners to deliver on shareholder agreement. Second, staged investment terms subject to milestones curb mission drift and opportunistic behaviours of SME investee owners and management. Finally, agreed contractual terms and covenants enable fund managers to deliver on their investment mandate from investors and report SME investee performance.

Majority of CMB respondents explained that board representation through the appointment of independent directors and fund manager representation was vital for them to realise objectives of the investments, namely financial returns and social impact. Phrases and statements ranged from *"implement right governance checks"*, *"improve formalism"*, to *"voice on strategic issues"* and *"ensure regulatory compliance"* were common. Entrepreneurs of missing middle and established SMEs with high growth potential from the analysed data appear receptive to long term capital investment from capital market-based funds. This perhaps can be attributed to the finance gap confronting missing middle SMEs estimated at \$70 billion to \$90 billion (IFC, 2013).

Extracts of interviews from fund managers and SME entrepreneurs reveal the importance of governance towards realising investment objectives. For example, a fund manager explained that

"one of the main value adds that we think we bring to the table is the ability to implement governance checks...we insist in all or most cases that we have a board seat ... that represent both the entrepreneurs' interest and our interest" (Fund Manager B)

Similarly, another fund manager stated that

"as part of our funding requirement, we will always be on the board as well...we do not use the board as the main tool to direct on what we do, of course" - (Fund Manager D).

Uniquely fund manager D added that board seat is a necessary condition for investments irrespective of the type of financial instrument deployed.

"Even if we invest in debt only, we will be on the board, even if it is just convertible debt we will be on the board. Because at the end of the day, we expect a positive return and that return. We tell people that we give money and more" (Fund Manager, D)

To confirm the explanation from capital market-based funds, some investee SME owner-managers alluded to the presence of fund managers on their boards.

"Some of the investors are on the board. It sorts of depending on what percentage of the capital they have that are eligible for a board seat. ...The CEO and I share one board seat and the other ones all come from investors"- (SM₁)

"I would imagine that anyone who would invest would want to be on the board.... the current structure is that [investor] has 48 per cent and I have 52 per cent"- (SM₂)

Consistent with previous literature, board representation was, however, not a significant requirement for fund manager 'A', that invested debt capital in SMEs based on the analysed data. Extracts of interview transcript below:

"Nobody sits on the board of those SMEs...we deal with entrepreneurs themselves like the owners of the business... You know most of the business we deal with are not kind of business that has independent shareholders." - (Fund Manager A)

Table 6.4 further above illustrate the coding structure of CMB fund manager influences on SMEs through governance mechanisms of ownership, control and board representation in simultaneous pursuit of social impact and financial returns.

In conclusion, four primary evidence emerged from the nature of governance through board representation at the fund manager-SME level. First, board representation guaranteed access to and reduces information asymmetry that affects access to capital and constrains SME growth for most of the fund managers. Second, influences on crucial decisions of SME owners and managers were better executed through board representation. Third, board representation facilitated the

formalisation of governance structures and provided legitimacy to the management of the SME investee to access capital from other sources. Fourth, technical assistance to SME investees through risks identified during due diligence and review of reports at the board level. Finally, debt fund managers do not appoint representatives to SME boards and utilise business support services to enable SME owners to fulfil the expected objectives. By way of summary, in applying the theoretical framework developed in Chapter 2.0, findings from the analysis of seven conditions under which a CMB fund can describe as finance first or impact-first investor were presented. Subsequently, presentation on how investors through the governance dimension of ownership, control, and board representation influence CMB funds were addressed. Also, the results of how CMB funds through governance mechanism empirically influenced SME investees towards realising the social impact and financial returns.

Case illustration box 6.1 below illustrate CMB fund manager B influences on investee missing middle SME based on governance.

Box 6.1 How CMB Fund managers govern missing middle SME investees

Case illustration: Box 6.1

SM₁ is an established agri-business company that produce and distribute fresh vegetables, herbs, fruits for homes, supermarkets or shopping malls and Airlines in Ghana. Established over twenty years ago, SM₁ remained relatively small-size due to challenges with access to financing from bank-based institutions. With an equity investment of almost \$ 1 million USD, technical assistance facility and access to a network of global entrepreneurs in 2016 from a Capital market-based fund (CM₄), SM₁ expanded and became a medium sized enterprise. Through the governance mechanism of ownership, control and board representation, CM₄ influenced the strategic decisions of SM₁ through the creation of an out-grower scheme, procurement and implementation of accounting system, creating market access to rural farmers and employing young women for sorting, sanitizing, packaging and then distributing it to clients. SM₁ currently employs 70 permanent staff and has created market access for over 1, 500 rural famers in Ghana. *“I will describe it that we are partners and they [fund manager B] are partnering with us to scale-up. Otherwise we will remain small which is a shame”* (CEO, SM₁). Evidence from corpus of data analysed uncovered that CM₄ invested in SM₁ because of the high growth potential and social impact of its operation through provision of market access to farmers in BoP communities.

In the next section 6.3 of this empirical chapter, presentation of analysis and findings will cover strategy change and alignment by CMB fund managers. These presentation focuses on strategy change and alignment at the investor-fund manager level and secondly at the fund manager-SME investee level aimed at realising impacts (social impact and financial returns).

6.4 How impact investing influences Strategy Change in CMB funds and investee SMEs

6.4.1 Introduction- strategy change and alignment

Theoretically, strategy change arises from misalignment of environmental conditions and current operating strategies of organisations (Vicente-Lorente and Zuniga-Vicente, 2006; Porter, 1980). Consequences of changing environmental conditions, turbulent or gradual, negatively affect organisational performance, access to resources and survival. Impact investments have emerged as a new phenomenon of direct and indirect investments through bank-based and capital market-based funds to realise the social impact and financial returns. This emerging phenomenon of impact investing represents an environmental change within the investment landscape, causing a misalignment in the operating strategies of capital market-based funds. CMB fund managers existed as agents of private wealth creation before the emergence of impact investing and therefore encountered the challenge of total strategy change or alignment of existing operating strategies to fit impact investors. Global impact investment misalignment with operating strategies impelled CMB fund managers to either align or change strategies to facilitate access to investment resources.

These funds existed and operated in a certain way, including commercially oriented, returns-based and high-value transactions driven by market-returns expectation before the emergence of impact investing. The key challenge for them is to re-align or change strategies to fit the demands of impact investors. Existing literature shows that CMB fund managers have either altered their strategy or aligned their strategies to facilitate investment flows to SMEs serving BoP communities (Addis et al., 2013; Rajan et al., 2014). Evidence gathered from interviewing five fund managers and four officials of DFI's representing investors as

well as documents analysed showed strategy alignment and change of CMB fund managers.

6.4.2 Investor and CMB Fund manager level

Development Finance Institutions (DFI's) comprised major actors in the impact investing landscape globally and a source of a long term or patient capital for CMB fund managers for investment. Corpus of analysed data from respondents of DFI's representing investors and CMB fund managers reveal evidence of strategy alignment by CMB fund managers to attract investment capital from DFI's for social impact and financial returns. CMB fund managers were aligning their strategies to DFI's evidence the classic strategy adaption perspective in extant literature which argued that managers align strategies in conformity with external environmental conditions (Singh et al., 1986; Vicente-Lorente and Zuniga-Vicente, 2006). Consequently, adequate "alignment with the institutional and industrial environment" guarantee survival and growth (Zuniga-Vicente and Vicente-Lorente, 2006). Analysis from the empirical data showed evidence of strategic alignment as an attractive intermediary of impact investing to DFI's. Typical phrases and statement from the interview transcripts range from *"they [CMB funds] need to be aligned with us"*(Investor A), *"to raise [capital], you need DFI's"*(Fund Manager C) and *"looking at Africa Region, E and S is a catch"* (Investor A) to *"positioning themselves [CMB fund managers] as interested in E and S"*.

The question of strategy alignment to DFI's respondents and CMB fund managers showed both explicit and implicit acknowledgement of this evidence in the impact investing landscape. For DFI respondents, developmental orientation, Sustainable Developmental Goals (SDG's) and 'E and S'-driven dimension of impact were requisite for CMB fund managers to align their strategies to source capital from them. Typical extracts interview extracts include:

"We ask fund managers to come up with proposals, we consider them, we consider that they fit-our mandate or not, or whether they are interesting or not and then we move forward." (Investor B)

"... people set up funds, particularly places like African context, I think a lot of them know that one of the ways of raising money is to go to DFI's. Also, in many cases, you need to go to DFI's if you want to get capital at all" (Investor A)

Another reason for CMB fund managers aligning their strategies to DFI's is for the confirmation or "seal of approval" effect:

"DFI's provide a significant source of funding for PE funds. They typically provide also that seal of approval, so the way you have a lot of funds which first close with primarily DFI funding and then subsequent close, they are able to raise money from commercial investors" (Investor D).

"DFIs are very developmentally-oriented, so they want to see the impact...they lobby people who are coming looking for money...." (Investor A).

CMB fund managers expressed insight regarding evolution within the external environment. They essentially positioned their strategies to incorporate environmental and social (E and S) action plans as well as impact objectives vis-à-vis pure focus on financial returns. Extracts of interview transcript illustrate empirical evidence of strategy alignment

"When it comes to as I said the ESG requirements, they are things we have signed onto... We believe in it, our investors believe in same, so it is not if you like we are aligned and not an undue influence on their part for us to do that" (Fund Manager D)

"The key thing in this game.... not to have any maligned relationships because it is a very small world. The investor universe is very small"- (Fund Manager B)

Also, within a resource constraint-environment like the African context, CMB fund managers understand DFI's importance in response to the question by a fund manager.

"If you are talking about the African context, then the answer is absolute, yes. There is not an oversupply of capital...in Africa, especially if you are looking at a relatively new field like impact investment, the only people or majority of capital in the game are the DFI's"- (Fund Manager C)

The evidence presented so far shows 'why' CMB fund managers align strategies to fit the mandate of impact investors consistent with the classic strategic management

(Andrews, 1971; Porter, 1980) and resource-based view (Barney 1991) of the strategy adaptation theory.

Strategy alignment of CMB fund managers for mandate-fit with investors precisely DFI's were also uncovered in the analysed data. Four conditions under which development-oriented investors through strategy alignment influence CMB fund managers to realise the social impact and financial returns. Suffice to submit that when the question of influence through strategy alignment was posed to DFI respondents and CMB fund managers, different answers surfaced. Typical answers ranged from *"we don't define strategies for fund managers"* (Investor, B), *"the answer is absolute yes"*(Fund Manager C), *"not an undue influence"*(Fund Manager, D), *"PE funds are increasingly focused on things that DFI's prioritise"*(Investor, A) to *"the investors set the parameters"* (Fund Manager, A). Evidently, some hesitation from DFI respondents regarding the nature and extent of influence. Nevertheless, a critical analysis of interview transcripts, documents accessed and fieldwork notes from rapid participant observations showed the following four conditions that DFI's influence CMB fund managers through strategy alignment:

1. Institutionalised ESG
2. High impact priority sectors
3. Multi-country or Regional Focus
4. A broad commitment to SDG.

Institutionalised environmental, social and governance (ESG) risk and impact together with action plans have become industry standards in the impact investing space. Because of global environmental effects such as climate change, flooding, deforestation, famine, access to water with attendant health challenges, most of these DFI's have incorporated these requirements in their criteria for committing capital to be regional and local funds. Evidence of social impact assessment of any potential funding to SMEs from the analysed data would require before and after analysis funding in terms of social impact. Consistent with social entrepreneurship and impact investing literature, social impact factors including job creation, impact on women, household touched, number of people taken out of poverty, income growth of beneficiaries (Seelos and Mair, 2005; Addis et al., 2013) requirements have been institutionalised for accessing capital funding.

In terms of governance, evidence of action plans for any risk factors identified during due diligence and measures to enhance formalism, control, checks and board representation to promote transparency were pre-requisite for capital commitment. Fund managers imbibed and inculcated ESG strategies in their investment thesis when pitching for capital from investors also signal evidence of strategy alignment. To further ensure uniformity and consistency in the application and institutionalisation of ESG, analysed data showed what is known and generally accepted in the private equity industry as "*the IFC ESG Performance Standards*" (Fund Manager, D).

Table 6. 4 IFC Performance Standards on ESG

	Indicators	Description
1	Performance Standard 1	Assessment and Management of Environmental and Social Risks and Impacts
2	Performance Standard 2	Labor and Working Conditions
3	Performance Standard 3	Resource Efficiency and Pollution Prevention
4	Performance Standard 4	Community Health, Safety, and Security
5	Performance Standard 5	Land Acquisition and Involuntary Resettlement
6	Performance Standard 6	Biodiversity Conservation and Sustainable Management of Living Natural Resources
7	Performance Standard 7	Indigenous Peoples
8	Performance Standard 8	Cultural Heritage

Source: IFC, Performance Standards on Environmental and Social Sustainability, 2012.

The following excerpts of analysed interview transcripts attest to the institutionalisation of ESG by DFI's for CMB fund manager strategy alignment.

"there is incentivisation there for a manager to portray themselves as an impact manager or to portray themselves as particularly interested in E and S because they know that they can do that to get the money"- (Investor, A)

"There is I think some kind of tacit institutionalization of impact orientation"- (Investor D)

DFIs have established high impact priority sectors for funding allocation. Beyond job creation, these sectors in most African countries drive developmental objectives and sources of societal problems established in section 3.2 of the context chapter 3. Unfortunately, public-sector support for enterprises in these sectors hitherto was neglected while large private sector companies deemed these sectors as unprofitable. For instance, fund managers A, B, C, D and E focus on at least two of these sectors namely agriculture and agri-business, microfinance, education,

health, renewable energy, housing, and manufacturing. In analysing the interview transcripts and documents, priority sectors of DFI were explicit and CMB fund managers invariably aligned strategies in their investment thesis to some of these sectors. For example, a comparison of responses from CMB fund managers and sector priorities of DFI's show the evidence of a focus on high impact priority sectors.

Transcripts of interview excerpts noted were:

"You cannot invest in education without making an impact. You cannot invest in health without making impact.... there is impact all around us"- (Fund Manager D)

"...where there are clear impact outcomes...In health education, food security, basic infrastructure, energy, these are market-driven factors and real-needs"- (Investor B)

A mapping of the priority sectors of DFI's and that of CMB funds shows the extent of strategic alignment to high impact priority sectors. Table 6.5 shows how DFI's influence CMB fund managers through strategic alignment to focus on high priority sectors.

Table 6. 5 Mapping of CMB funds sectors and DFI's priority sectors

CMB funds		DFI's		
Fund	Sectors	CDC Group (UK) (Priority Sectors)	Proparco (France) (Priority Sectors)	Obviam (Swiss) (Priority Sectors)
Fund Manager B	Nutrition and Agribusiness; Microfinance; Health; Renewable Energy.	Financial Services, Infrastructure, Health, Manufacturing, Food and	Agriculture and Agro-industry, Education (Fund Manager D); Health; Microfinance;	Healthcare; Education (Fund Manager D); Basic Infrastructure; Renewable Energy; Access to Finance
Fund Manager C	Agriculture and agri-business	Agriculture Education (Fund Manager D)	Industry and Services	
Fund Manager D	Education, Financial services, Health, Housing, Hospitality and Food services			

Source: Authors illustration from PhD data

Table 6.5 shows the mapping of the sectoral focus of CMB Funds and three DFI's. To explain how CMB fund managers have aligned their strategies through a focus on high impact sectors, fund manager D sectoral focus and priority sectors of these DFI succinctly illustrate alignment. Fund Manager D targeted sectors include education, strategically aligned and target all the DFI's as shown in the table with the bold font size.

Multi-country or Regional focus evidence another dimension of strategy alignment shown from the analysed data. It is evident that DFI's focusing on Africa and other Regions through risk diversification impact countries designated as "fragile states" expect fund managers to align strategies to focus on multiple countries. Excerpts of interview transcript and website information shows this trend of alignment:

"We tend to look at something with Regional exposure precisely because some of the countries in which we operate can be quite volatile" - (Investor A)

Another typical illustration is from the Dutch Good Growth Fund, which mostly expects fund managers to focus on multiple countries with some designated as "fragile countries"

“DGGF⁷ is a 'fund of funds': it is building up a portfolio of intermediary funds that are catalysts for local economic growth. The DGGF⁸ has set specific targets for intermediary funds that invest in young or female entrepreneurs and entrepreneurs in fragile states”

To access such a fund, Fund Manager D had to diversify from a single country to multiple countries through strategy alignment. Furthermore, the analysed data shows that DGGF was the anchor investor to the current fund of Fund Manager D.

Social impact orientation strategy - A primary underlying assumption from impact investors relate to development and to that extent social impact expectation is relatively high with a threshold of financial returns (Ormiston et al., 2015; Rajan et al., 2014). Strategy alignment of CMB fund managers shows evidence of social impact orientation in their strategies. Job creation, improved standard of living, household lives touched, income generation, improved healthcare, access to education and access to energy constitute examples of social impact orientation strategy change. Such evidence from interviews with four DFI's support how these fund managers had to align to conform to environmental conditions strategically. Excerpts shows

“.. the underlying development logic is a very fundamental driver”- (Investor A).

“an SME fund focusing on West Africa, with income and job creation as its main impact objectives, Fund Manager D strategy is in line with the overall DGGF impact mandate”- (Fund Manager D)

“I think there is a kind implicit interest which comes which kind of say if you want to get money from us, you need to position yourself in this way in order to mobilise capital”- (Investor A).

Inherent in the strategic alignment of fund managers towards social impact is the link to sustainable development goals. Social impact indicators evidence shows that these strategies reflect direct effects on the 17 sustainable development goals. Therefore, fund managers, in addition to incorporating social impact strategies, demonstrated how these impacts were connected to the SDGs in developing

⁷ Dutch Good Growth Fund (DGGF) is a development fund for SMEs accessible through intermediary fund managers established by the Dutch Government as part of its development co-operation with African countries.

⁸ <https://english.dggf.nl/who-can-apply/investment-fund>

countries. Some excerpts of interviews from DFI respondents below showed this finding.

"The idea is to try and make the most impactful investment as possible by investing in sectors that are able to meet the SDGs and higher impact."- (Investor B)

"We also have the SDGs focused sectors that are trying to help African countries achieve or improve the economic and social impact"- (Investor, D)

The 17 United Nation Sustainable Development Goals (SDG's) constitute another broad commitment which DFI's are enforcing for CMB funds to align their strategies to secure funding from them. As noted by one CMB fund manager *"the only people or majority of capital in the game is the DFI's"* complemented by a DFI respondent *"you need to go to DFI's if you want to get capital at all"*. From the perspective of DFI's, if a fund manager requires capital from them, then a commitment to these SDG's is a pre-requisite which would be measured and reported. Likewise, from fund managers perspective, *'give them what they want'* reflecting how strategically fund managers had to align to the mandates of DFI's within the emerging impact investing space. Table 6.6 show examples of some of the SDG's and how fund managers are aligning their strategies through investments in SMEs that aims at realising these objectives.

Table 6. 6 SDGs and CMB fund contribution

SDGs		Contribution to SDG⁹- Fund Manager B
Goal 3	Good Health and Wellbeing	Extended health coverage to all companies in the portfolio. As a result, 90% of the fund's portfolio companies provided health insurance.
Goal 5	Gender Inequality	Promote women entrepreneurs and women's access to leadership positions: as of 2017, 20% of portfolio companies were owned or led by women (compared to an average of 5% of African companies with female CEOs per McKinsey's August 2016
Goal 8	Decent work and Economic Growth	Accounted for more than 5,500 jobs created or maintained. The average net monthly wage of its portfolio companies' employees was 70% higher than the average wage in Sub-Saharan Africa
Goal 10	Reduced Inequality	The majority (80%) of investments were allocated to the least developed and most fragile countries in Sub-Saharan Africa, as defined by the United Nations and the World Bank.

Source: Authors illustration from impact fund manager reports

To summarize, in terms of strategy alignment, what is emerging from the analysis is evidence of CMB funds that hitherto were agents of private wealth creation aligning to impact investors. CMB fund managers were aligning to ESG requirements which have been institutionalised through the IFC performance standards. Secondly, CMB fund managers have aligned to the high-impact priority sectors of impact investors comprising health, education, renewable energy and agri-business that generate threshold of financial returns and high social impact. An emerging explanation was that investing in such sectors automatically generate impact, and they constitute market-driven sectors with real needs. Thirdly, alignment through a focus on multiple countries and regional level due to the demands of impact investors for investment in entrepreneurs in fragile states and as part of risk diversification. Fourth, adoption of social impact orientation as a positioning strategy to access resources from impact investors. Finally, interconnected to the social impact is fund manager alignment to impact investors through a commitment to sustainable development goals.

⁹ <https://www.empea.org/research/empea-esg-community-case-studies-alignment-sdgs/>

Strategy change of CMB fund managers was implicit from the interview transcripts analysed; however, a critical examination and analysis of secondary data including documents, impact reports, websites and GIIN case studies showed a remarkable trend. Typical responses to the question posed to fund managers comprised "*we don't brand ourselves as impact investors*" (Fund Manager D), "*same model*" (Fund Manager B), "*same investment approach*" (Fund Manager E), to "*increase fund size and investment amount*" (Fund Manager D) and "*more ESG tracking*" (Fund Manager D). The empirical literature on 'why' of strategy change showed a positive relationship between environmental variables (i.e. uncertainty, complexity and industry concentration) and changes in firm strategies in line with the adaptive theories (Amburgey et al., 1993; Westphal and Fredrickson, 2001; Zuniga-Vicente et al., 2005). Extending this view to the strategy change of CMB fund managers, environmental uncertainty appears to be driving strategy change. For instance, emerging trends within global, institutional, impact investment and enterprise landscape evidence uncertainty which could affect CMB fund manager survival without strategy change.

To conform to the emerging external environmental changes, CMB fund managers had to change strategies to incorporate ESG, sustainable developmental objectives, social impact together with financial returns to access capital from promoters of impact investing. Based on the analysed data, the findings presented below shows five circumstances of strategy change of CMB fund managers with the emergence of impact investing phenomenon. Table 6.7 shows how CMB Fund managers A and B have changed strategy through an examination of fund I and fund II along the lines of fund composition, fund size, access to technical assistance, funding sources, regional and multiple country expansion, and social impact orientation.

Table 6. 7 Impact investment and strategy change of CMB funds

		Fund Manager A		Fund Manager B	
		Fund I	Fund II	Fund I	Fund II
Fund size		\$100 m	\$150 m	\$13.2 m	\$ 65 m
Year		2008	2014	2002	2012
Ticket size		\$0.05m to \$1.5m	\$0.1 m to \$1.5 m	\$0.06m to \$0.78 m	\$0.36 m to \$1.8 m
Fund Type		Debt Fund	Debt Fund	Growth Equity	Growth Equity
No of investees		317	166 and on-going	33	29 (40 expected)
Objective		Finance start-ups and SMEs across Africa	Impact investment vehicle for SMEs	Target small and fast-growing SMEs	Target missing middle and matured SMEs
Funding Sources		DFI's (AfDB, European Investment Bank (EIB); Norfund; CDC, IFC, FMO, Proparco); and Shell foundation	Foundations (Shell, Calvert, Skoll), DFI's (KfW, Norfund and the Dutch Good Growth fund (DGGF); Anthos; Elma Investment	Private Individuals, DFI (EIB and Proparco)	DFI's (FMO, AfDB, Proparco, EIB); Private Investors (Bank of Africa, CFAO, PhiTrust, BRED, Credit Cooperatif), foundations and individuals (Wendell)
Sectors		Education, Agri-business, manufacturing and key services	Education, Healthcare, Agri-processing, Manufacturing, Energy, Services	Agri-business, essential services, manufacturing	Agri-business, Microfinance, Construction, Transport, Health
Geographies		West Africa (Ghana, Nigeria); East Africa (Kenya, Rwanda, Tanzania, Uganda, Zambia); South Africa	North Africa (Egypt); West Africa (Ghana, Ivory Coast, Nigeria, Senegal); East Africa (Kenya, Rwanda, Tanzania, Uganda, Zambia); South Africa	West Africa (Benin, Burkina Faso, Ivory Coast, Mali, Senegal); Central Africa (Cameroon, Gabon, Uganda); Indian Ocean (Madagascar)	West Africa (Benin, Burkina Faso, Ivory Coast, Ghana, Mali, Senegal); Central Africa (Cameroon, Gabon, Uganda); Indian Ocean (Comoros, Madagascar)
Social impact		Job ¹⁰ s created and sustained 43,600; Entrepreneurs supported: 6,090; Livelihood impacted: 218,000	Jobs created and sustained: 35,250; Entrepreneurs supported: 1,360; Livelihood impacted: 176,000	Jobs: created-1,300 sustained-1,646 People impacted: 19,149 Entrepreneurs supported: 26	Jobs created and sustained: 4,374 People impacted: 30,370

Source: ESG and Impact Reports 2017 and 2018 of Fund Manager

¹⁰ Figures extracted from impact report as at December 2017

Capital commitment from investors described as limited partners constitute a fund for realising specific objectives through SME investments. Prior to the emergence of impact investing, CMB funds analysed from the data collected showed fund composition consisting of private institutional and commercial investors relative to development-oriented investors. Because of high returns expectation. However, because of the strategy change of fund managers, current funds incorporated evidence higher concentration of development-oriented investors and philanthropy organisations with a relatively higher expectation of social impact with threshold financial returns.

Considerable fund size evidence referred to as asset under management (AUM). Strategy change of fund managers facilitated access to a large pool of capital from foundations, DFI's and family offices that hitherto committed little or no capital for funds focusing on private wealth creation. This evidence can be observed in the fund I and Fund II of three of the CMB funds analysed for this research. Because of the larger fund size, these funds have increased their average transaction size and focusing on missing middle and established SMEs. For example, Fund Manager B incorporated their fund I of \$13.2 million in 2002 with relatively fewer investors and size. However, post-investment of fund I for ten years in 2012 and emergence of impact investing, Fund Manager B sourced fund II of \$65 million size representing a multiple of almost 4.5 times of fund.

Access to technical assistance (TA) facilities represents one of the significant evidences of strategy change by CMB fund managers. TA's are aimed at supporting the funds and SME investees. Hitherto, technical assistance facilities from DFIs were channelled to government-funded projects in developing. The phenomenon of impact investing has changed the trend arising from the strategy change of CMB fund managers. Some of these institutions assisted through their in-house ESG teams, technical assistance facilities and other support services to build capabilities of team's fund managers to deliver on developmental objectives through SME investments. Excerpts of interview extracts illustrate the investor influences as enablers of strategy change:

"When they are handling E and S issue, and we encourage them to let us know so that our in-house E and S team can recommend a solution" (Investor A)

"The TA program is based on grants from the European Investment Bank and FISEA (€1.5M). It co-finances a great variety of support missions being carried out by independent specialists"- (Fund Manager B).

Strategy change of CMB fund managers also manifests in-country or regional focus of predecessor fund and current fund under management. Analysed data shows three evidence of change in country focus. First, one Fund Manager D that initially focused on a single country transitioned to a regional focus fund through the addition of a second country in their current fund. Second, fund manager C that co-incidentally established fund I with sub-regional focus strategically positioned themselves as impact investing fund for agriculture. Third, fund managers A and B with presence in three sub-regions of Africa expanded to other sub-regions in Africa and the Middle East. Scale-up of Fund Managers A and C were at the instance of impact investment capital from DFIs supporting developmental objectives in different sub-regions in Africa. Principal actors in this strategy change of CMB fund managers were the development finance institutions seeking to alleviate poverty, increase the income level of people in BoP communities and facilitating access to finance. Without mincing words, typical phrases from interview transcripts revealed the following:

"We tend to look at something with Regional exposure.... it is somehow protective on a risk management front to have a broader range of exposures.
- (Investor A).

To summarise, CMB fund managers changed their strategies with the emergence of impact investing. Consequently, they became agents of development through SME investment relative to their prior status as agents of private wealth creation. Evidence of CMB funds strategy change were uncovered through fund composition, larger fund size, access to technical assistance facilities, and regional and multiple country focus.

In conclusion, strategy change and alignment at the investor- fund manager level analysis presented earlier indicates the influences of investors within the changing impact investment landscape. In terms of strategy alignment, the evidence shows five conditions under which fund managers aligned their strategies. These conditions comprised institutionalised ESG, high impact priority focus, multiple country and regional focus, social impact orientation and broad commitment to

SDGs. Similarly, the evidence presented shows four circumstances of strategy change among fund managers. These conditions included fund composition, larger fund size, access to technical assistance facilities, regional or geographical expansion.

Based on this evidence presented, critical examination and critique of the analysed data, what is emerging is more of strategy alignment of fund managers rather than strategy change based on the theoretical framework developed in section 2.8 of chapter 2. Fund Managers A, B, D and E, have aligned their strategy. For fund manager C, the evidence shows more of a coincidence that their first and only fund under management was consistent as investor B phrased "*mandate-strategy-fit*" with the emergence of impact investing. Fund Manager A is deploying the same investment model, operational strategy, and post-investment support services. However, because of track record and implementation of their business model for almost two decades, fund manager A aligned their strategy and presented an investment philosophy of social impact and financial returns to access a large pool of capital. Fund Manager B utilized the first phase of their set up to experiment their investment model with an embedded impact strategy basically from funding from private investors. Subsequently, they attracted a couple of DFI's in their second fund while expanding regionally.

The strategy alignment evidence became pronounced in their third fund with the emergence of impact investing where they demonstrated to DFI's, family offices, philanthropic organisations. While fund manager E showed some evidence of strategy alignment, they sort of build and consolidated their investment strategy and operating model.

6.4.3 How CMB fund managers deliberately influence investee SMEs through strategy change

Evidence of strategy alignment and change of CMB fund managers presented in subsection and section 6.4.2 reflects in the level of influence on SME investees to realise anticipated objectives. Analysis and findings are presented on the influences of CMB fund managers on SME investees in line with the notion of strategy adaptation perspective of strategy change (Zuniga-Vicente and Vicente-Lorente, 2006). Strategic management theory explains the 'why' of strategy change or alignment as uncovered in Section 2.4. Strategy adaptation view suggests that managers align or change strategies in conformity with external environmental

events. Based on this perspective, CMB fund manager influences on SME investee strategies were uncovered. Analysis of interview transcripts, documents and associated secondary reports show evidence of how CMB fund managers through strategy change and alignment influence SME investees to deliberately realise the social impact and financial returns linked to social entrepreneurship theory.

The question of how CMB fund managers influenced SMEs through strategy change or alignment from respondents were quite insightful. Few extracts from the interview transcripts included:

"Of course, the investors, all the investors that we work with are also social impact investors. Also, so, we cannot do certain activities if it does not serve their ultimate objectives"- (SM₃)

"We had some people in the past who were less likely, and we have tried to really focus on getting investors that are aligned with the way we want to do things"- (SM₁).

"They will make sure they will drive you to not coercing you, but they will direct you to whatever they want to achieve...they will direct you, and it was also helpful for us."- (SM₆)

Like the above, CMB fund managers expressed how they have utilized strategy alignment to influence SMEs. Two excerpts from an interview transcript provided indication:

"Just as we went out fundraising, and we had feedback from investors that shaped our model. We also can shape, we do not change it, but we can shape" – (Fund Manager D)

"We try to use our understanding of the bottom of the pyramid and also understand what the company is supposed to do to help them align to that mission" – (Fund Manager E)

A critical analysis of data collected for this research uncovered four findings of how CMB fund managers through strategy alignment and change influence SMEs to realise the social impact and financial returns. These findings comprise investment processes, post-investment relationship, embedded ESG and social impact initiatives, and impact-driven and SDG alignment.

Investment processes represent opportunities for CMB fund managers to selectively invest in high growth and established SMEs with heterogeneous strategies. Social entrepreneurship theory avers how SMEs can deliberately realise social impact and financial returns through adoption of integrated, unified hybrid, commercial plus CSR, complementary and embedded strategy (Battilana et al., 2011; Austin et al., 2006; Peredo and Mclean, 2006; Seelos and Mair, 2005). Analysed data showed unique approaches adopted by fund managers as investment processes for selecting and investing in SME. In the main, five stages were identified namely screening, due diligence, contracts and disbursement, monitoring and exit. Typical deal selection and structuring process of private equity and venture capital literature (Gompers et al., 2016). Strategy change of CMB fund managers, now as agents of social impact and financial returns implied rigorous selection processes of SMEs by CMB fund managers to meet impact investor objectives (Ormiston et al., 2015). Two investment processes were deployed to influence SME investees through strategy change and alignment comprising screening and due diligence.

CMB fund managers through screening processes select SME investee that strategically imbibes social impact and financial return objectives. Hitherto, fund managers could identify SMEs in preferred sectors with higher expected returns without recourse to the investor objectives. However, a thorough and laborious screening processes including entrepreneur assessment, entrepreneur strategy and fund manager mandate fit, which could last about three months prior to due diligence phase. As one CMB fund manager notes in the following interview extract

"Sometimes, people come with their passion, they want to do something wild, and that is fine. We do not invest in big dreams; we invest in the business"-
(Fund Manager D)

Due diligence phase also evidenced the selectivity of SME by CMB fund managers in pursuit of social impact and financial returns objectives. Business viability test, entrepreneur personality test, financial viability, legal and regulatory compliance assessment conducted to ensure SME venture can deliver on social impact and financial returns objectives. Strategy change resulted in fewer SME investee selection from initial screening to due diligence realise for mandate-fit as noted by CMB fund managers.

"I mean if we start with 100 companies, by the time we get to the investment committee level we probably get like just twenty companies or 15 companies"- (Fund Manager B)

"We can only invest in just a few... we go for the one that we think we can really make money and impact as well... before, for example, we would invest in one hospital, we probably will be looking at four hospitals"- (Fund Manager D)

Post investment monitoring represents another process. CMB fund managers now provide different support services to influence investee SMEs to realise the expectations of investors to the fund. Typical post-investment management support includes financial management, capacity building, training and networking, strategy fine-tuning, human resource capacity building and budgeting.

Technical assistance funds accessed from investors assist fund managers influence SME investees to implement actions plans for ESG risk indicators identified during due diligence. These business support services and assistance to SME investee catalyse fulfilment of social impact and financial returns objectives expectation from investors. Fund Manager B noted that technical assistance *"is used for capacity building, skills transfer and training"*. Similarly, for the upgrading of strategic plans and processes, Fund Manager E explained *"We do have a look at their strategies and plans and where we think that there is a need to improve upon it we do so. Also, we do that with a lot of technical assistance support."*

SME entrepreneur founders and investees also heralded how CMB fund managers through technical assistance funds have catalysed their growth through enabling new product launch, scale-up and expansion to other countries. Post-investment management support to SME investees ensured growth.

"Fund Manager B had a technical assistance fund and what the fund does is that it locates the expertise that your company needs and they put that expertise into the company"- (SM₂)

".....they provided the resources to drive our agenda"- (SM₆)

Intentionality or deliberateness in pursuing a strategy of social impact and financial returns imply the adoption of ESG and social impact strategies by CMB fund managers and investee SMEs. Investors to CMB funds with the emergence of impact investing are prosecuting ESG and impact agendas in line with Sustainable Development Goals (SDG). As part of strategy change and alignment of CMB fund managers, ESG and social impact strategies were demonstrated through SME investees. First, ESG risk assessment and social impact objectives were incorporated in the strategies of SME investees at the contract signing stage before disbursement. Second, action plans on ESG risk factors identified by CMB fund managers with SME investee management team were implemented. For instance, social protection, safety at work and gender consideration. Finally, reporting on ESG and effect on value creation to fund managers and investors were performed.

ESG risk assessment and implementation of action plans were linked to social impact objectives expected from SME investees. Consistent with existing literature and environmental sustainability (Blundel et al., 2018), implementation of risk management positively affects value creation through social impact. For example, Fund Manager B ensured that SME investees provided health insurance for all employees as part of the social risk factor identified. Evidence was also uncovered in situations where SME investees guaranteed inclusive growth through the establishment of out-grower schemes based on the advice of Fund Manager B. Reporting of these dimensions of social impact to investors were critical to accessing other funds from investors by fund managers as shown in the impact report of Fund Managers A, B and E.

Alignment of social impact to SDG also emerged. Evidence from the analysed data of annual impact reports of Fund Managers A, B, C and E showed how CMB fund managers through strategy change influenced SME investees to demonstrate social impact aligned to sustainable development goals (SDGs). First, SMEs providing goods and services in specific sectors designated impact-driven sectors comprising health, education, renewable energy, agriculture and agribusiness, hospitality were targeted. Second, evidence was uncovered concerning the interconnectedness of social impact realised by SME investees and alignment with SDG attainment. For example, SME investee providing off-grid electricity to rural consumers in Ghana and Cote' D'ivoire in terms of social impact guaranteed access to electricity in BoP communities evidenced in the 2018 annual impact report

of Fund Manager B. Linked to SDG, investee SMEs promoted renewal energy access and reduced carbon footprint to mitigate environmental effects (Blundel et al., 2018). Simultaneously, the provision of off-grid electricity was aligned to SDG 7 (affordable and clean energy) and SDG 5 (Gender equality) through women as a field sales representative.

In conclusion, some of the evidence resembles pure private equity and venture capital deal selection and structuring processes. However, through the dimensions of ESG and social impact strategies, technical assistance support, and social impact and SDG alignment, separate evidence within the impact investment landscape can be observed. In the next section, analysis, and evidence of the deliberate pursuit of social impact in line with research objective two and strategy change from social entrepreneurship theory.

6.5. Simultaneous pursuit of Impacts (Social impact and financial returns)

6.5.1 Introduction

CMB fund managers that hitherto were agents of private wealth creation aligned their strategies to attract resources from impact investors to invest in SMEs for social impact and financial returns. This reflects the 'why' of strategy change uncovered in section 2.4 and evidenced in section 6.4. Simultaneous pursuit of social impact and financial returns as incorporated in the investment models of CMB fund managers were executed through SME investees to reflect impact investment strategy (Hotchstadter and Scheck, 2015; Ormiston et al., 2015). In this section, analysis and findings focused on the nature of impact realised through SME investees, the role of SME owner-managers as social entrepreneurs and CMB fund managers as agents of social transformation. These impacts (social impact and financial returns) were analysed from the interview transcripts and documents secured from impact investors, fund managers, SME investees and impact investment promotion association.

6.5.2 Demonstrating social impact

Extant social entrepreneurship literature (e.g. Seelos and Mair, 2005; Paredo and McLean, 2006) and impact investing (Rajan et al., 2014; Addis et al., 2013) shows that social impact through SMEs vary including supplying products to BoP communities, poverty reduction, increased income, job creation; improved access to education and health; and access to reliable energy. These varied dimensions of social impact are critical to the promoters of impact investing (Jones and Turner, 2014; Hotchstder and Scheck, 2015) which underpin the developmental objectives of impact investors (Rubin, 2009; Bhatt and Ahmad, 2017). Case illustration 6.2 evidence how a high growth and established SME pursued social impact and financial returns simultaneously representing what Austin et al., (2006) called an embedded social purpose strategy.

Box 6.2 High growth SME, intentionality of social impact and financial returns

Case illustration: Box 6.2

Simultaneous pursuit of social impact and financial returns represent major outcomes for impact investors when they commit capital to for-profit SMEs that pursue dual goals. As noted by the MD of SME₃ "...as a social enterprise, we are not necessarily driven by profits, but we are also driven by helping society to improve what they are able to do., solving a challenge that faces smallholder farmers... And that of information asymmetry". An established and high growth SME providing technology solutions to farmers (i.e. market prices, weather information, bid-sell platform) as well as project management services, SME₃ attracted impact investment capital from different sources to pursue social impact and financial returns in Ghana. In providing solutions to the needs of smallholder farmers for planting, fertilizing, harvesting and market-related prices at relatively affordable rates, SME₃ simultaneously pursued social impact and financial returns in BoP communities. In addition, through GIS and Remote Sensing technology platforms developed, SM₃ provided services farmers under the auspices of institutions including Vodafone Ghana, Government of Ghana, AGRA, and UNICEF generating financial returns while addressing the needs of BoP communities for social impact. With employee strength of 35 full time, 43-part time and an estimated 500 field representatives for project execution, SM₃, a mobile and digital solution provider for smallholder farmers attracted impact investment capital. Impact funding from IFC, AHL Fund manager E, McDavies International and Soros Economic Foundation enabled realisation of social impact and financial returns simultaneously. In addition to these equity investments, SME₃ secured grant funding of over \$800,000 USD from the Alliance for Green Revolution (AGRA) to support the deployment of an innovative technology solution to farmers in Ghana expected to help more than 80,000 farmers from 2016-2019.

SME respondents provided similar answers on the nature of social impact through their operations and services rendered in BoP communities. These impacts comprised direct and indirect jobs and market access opportunities. Excerpts of these transcripts comprised focusing on job creation:

"We 305 full-time staff in both countries and then we have probably another 300-400 direct sales representatives"- (SM₁)

"Currently our staff strength is around 250... the full time is 168, and the rest are casuals who are needed for planting and during harvest. If they mature and you do not harvest within a certain period, they go bad"-(SM₉)

Thus, an embedded social purpose strategy adopted by some of the investee SMEs facilitated access to impact investment capital for their businesses. Table 6.8 depicts the coding structure of the impact variables of social impact and financial

returns. Data from secondary sources garnered during the data collection and reports from institutions such as World Economic Forum, Global Impact Investing Network (GIIN), EMPEA and the Financial Times were consulted.

Table 6.8 below exhibits the coding structure followed detailed earlier in Subsection 4.7.1. All three second-order concepts were aggregated to represent the theoretical dimension of social impact and financial returns.

Table 6. 8 Data Structure of Impact investment impacts (Social impact and Financial Returns)

First Order Concept	Second Order Concepts	Aggregated dimensions
Job creation, indirect and direct jobs, employment opportunities, casual work, sub-contracting work, loading and off-loading job, enumerators	Employment related	Social impacts
Weather information; planting, fertilizing and pesticides spraying information, free-rider community effect, technical support, better product pricing	Market access and BoP growth	
Access to loans; income for children medical bills and school fees; start-up support; women business support; capacity and mobile money access	Financial inclusion	
Off-grid energy access; health improvement; productivity improvement; drive inclusion; reduce underserved population	Energy access	
Revenue generation; cash flows; sales growth; returns to investors; return on investment	Investor-determined indicators	Financial returns
Profitability, sustainability, survival; loan repayment;	Firm specific viability	
Statutory contribution, taxes; pension; employee insurance contribution; economy-wide benefits	Economy-wide contribution	

Source: Authors illustration from PhD data

6.5.3 Variants of deliberate social impact and financial returns

The financial return anticipated is essential to fund managers and investee SMEs just as social impact shown in Table 6.8. Thus, financial return is a crucial motivator for CMB fund managers investing in SMEs. Similarly, entrepreneur managers of SMEs receiving investment flow prioritise profitability, cash flows and revenue growth as a critical operational goal while aiming at poverty reduction in BoP communities. Financial inclusion represents a primary context-specific factor under the financial architecture reforms reviewed in section 3.3 in changing the SME financing landscape. It ensures that women who hitherto were unable to access funding for their small business secure such opportunities. The effect is that financial inclusion becomes an enabler for families to secure access to credit and generate income to meet educational and medical bills. These aggregately represent the theoretical dimension of social impact and evidence of societal problems noted in section 3.2, which impact investors are seeking to alleviate.

An integrated or unified hybrid strategy (Battilana et al., 2012; Seelos and Mair, 2005) from the social entrepreneurship literature can be uncovered in Non-Bank financial institutions (NBFIs) and MFIs. The interview excerpts below reflect this strategy.

"So, for instance, you are trading, we have this group in Bolga ... weaving baskets.... Also, we have put them into a co-operative, and we have found a company that comes, and we have negotiated rates for them. That company pre-finances.... Moreover, we have linked them to the market. They are about sixty (60) entirely women."- (SM₇)

"You know we deal with the active economic population and so somebody who could not look after the kids at school, once he gets a loan, he is able to. In fact, We are biased towards women. Many women look after their children..... It is the women that shoulder all these burdens"- (SME₆)

"Some of them have ideas, but they do not have the financial muscles when they come, and then we look at what they have, we give them first cycle, second cycle, and then they improve upon their performances" (SME₆)

Another form of deliberate realisation of social impact and financial returns occurred by way of high growth and established SMEs in agri-business of farming

and manufacturing. It emerged that established and missing middle SMEs engaged in commercial activities generating financial returns simultaneously realise high social impact through direct and indirect job creation, income improvement to out-grower farmers and other CSR support to the communities.

"....As an SME fund focusing on West Africa, with income and job creation as its main impact objectives"- (Fund Manager D)

"We see ourselves as agents of change and development in the sense that the private sector just like President Kufuor put it as the engine of growth must be encouraged to do a lot so that it will be able to engage a lot of the youth in terms of employment generation" (SM5)

"... Our products support a healthy lifestyle. I can say that we work approximately maybe about 50 to 100 out-growers. However, beyond that, we work with farmers who are not out-growers"- (SM₂).

Sourcing products from BoP communities while making financial returns or providing products and services to them to improve their livelihoods reflect an embedded social purpose strategy. The strategy of the deliberate pursuit of social impact and financial returns from the social entrepreneurship literature (Austin et al., 2006; Peredo and McLean, 2006; Seelos and Mair, 2005).The following excerpts elaborate on this theme:

"Social impact... it is the big goal; I will say... the whole reason that we got into this business and the real end for me anyway is the social impact. We have 30,000 customers"-(SM₁)

"When we are profitable, then it means that we can continue to grow. If we can continue to grow, then it means that we can employ more people, we will also be impacting wider consumers."- (SM₂)

"There was another study done by the New York study, also want to understand the impact of [SME] price information and livelihood of the farmers' income... They also found that for the farmers who are receiving the [our] information services, they are also getting 9% more ...They also found that there was a 200% return on investment for those farmers"-(SM₃)

Evidence from SME₁ and SME₃ reflect an embedded social purpose strategy from Austin et al., (2006) in the simultaneous realisation of social impact and financial returns. Furthermore, to guarantee that individual lives are positively impacted, some of the SME investees providing financial services support their clients and require them to register for the National Health Insurance for improved health.

"they get some economic activity; it relieves them from the hardships, some medical bills they are able to pay. So economically they can look after their kids, they can send them to school. We make them register for National Health Insurance to make sure that you know when you are sick, you would not take the money that you have been given as loan"- (SM₆).

From the analysis presented, emerging findings from the evidence about nature and how SME investees and CMB fund managers realise social impact consist of the following:

- 1) Job creation, direct and indirect jobs are the primary dimension of social impact for SME investees and CMB fund managers.
- 2) The improved income of BoP communities via out-grower and aggregator schemes.
- 3) Market Access through filling gaps from poor government initiatives and disinterested.
- 4) Poverty reduction through access to credit.
- 5) Products and services to underserved customer segments.

Majority of the investee SMEs prioritise financial returns in their strategy and find alternative ways of demonstrating impact. The impact of financial returns from the analysed data tends to be integrated or separate from social impact in some of the investee SMEs. Thus, financial return is a key motivator for CMB fund managers investing in SMEs. Similarly, entrepreneur managers of SMEs receiving investment flows prioritise profitability, cash flows and revenue growth as a critical operational goal. Understandably, the justification of financial returns forms the approval of impact investment capital by CMB fund managers. Some of the reasons given comprised sustainability, survival, growth, and expansion expectation and to some extent taking on the legal form of for-profit social enterprise.

Few responses from participants include:

"We are a for-profit company and would want to make a return for our investors.... I like been a for-profit because, first of all you know if you charge people something for what they are getting, then it is much more empowering to them." (SM₁).

"....if we do not make money, we will not survive. It means that we will wind down. So, we need to be profitable to carry on. When we are profitable, then it means that we can continue to grow" - (SM₂)

"....as I said that we are running a sustainably profitable business..... we are not necessarily driven by huge profits, we are also driven by the impact of what we are doing. Moreover, in as much as we are helping people, we are also driving and generating revenues for the company, ourselves."- (SM₃)

Financial returns were integral to the operations of investee SMEs in returning the invested capital to CMB fund managers and ultimately to investors as well as for expansion and growth. The expectation of financial returns by CMB fund managers from SME investees is directly linked to the expansion and growth potential of these businesses. Many SME owner-managers prioritise financial returns as illustrated earlier. The primary attributable reason is the issue of sustainability or survival. For SM₂

"if we do not make money, we will not survive. It means that we will wind down. So, it is important for us to be profitable to carry on. When we are profitable, then it means that we can continue to grow."

This evidence of financial outcome expectations and to a more considerable extent, potential trade-off (if any) with social impact can be traced to the investment criteria of CMB fund managers. For example, CMB fund manager D expressed the importance of financial returns in the excerpts below:

"You must have a financial return really at the forefront. As my Professor will say, it is not at the back of my mind; it is at the front of my mind."

In addition to the financial outcome of profitability and cash flows generated through the SME investees, economic contributions of the investment reflect economic or market effects. Finally, analysed documents and reports specifically

from Impact report (2018) from fund managers A and B revealed contributions to government revenue through taxes, both income and corporate.

Emerging from the analysis presented, financial returns as the second dimension of impacts expected by CMB fund managers, key evidence constituted:

- 1) Profitability and revenue generation is a significant financial impact from SME investees.
- 2) Repayment or liquidation of invested capital and interest/returns through self-liquidating instruments or share trading to new investors.
- 3) Statutory contribution and effects on the national economy (SME investees and CMB fund managers).

6.5.4 Role of individual fund managers and SME owner managers

Literature reveal evidences of entrepreneurs and capital providers playing essential roles in developing countries as agents of the solution to societal problems (Addis et al., 2013) from a developmental perspective (Jones and Turner, 2014). Their role as agents of societal transformation received affirmative responses. These responses varied from *"helping society"* (SM₅), *"driving change and inclusion"* (SME3), *"group lending to women to process shear butter"* (SM₇), *"changing lives"* (Fund manager, E). Excerpts of interview transcripts detailed below:

"I mean we are looking out for ways to drive change, ways to drive inclusion...our main target customers are the rural people, but anybody who lives in the rural areas... can we use technology and our experience to drive that kind of inclusion at the community level." - (SM₃)

CMB fund managers viewed their role as agents of the solution to societal problems from the perspectives of catalytic effect, serving BoP communities through investees, support for sustainable businesses. For example, fund manager D, view their role as a catalyst:

"We are serving as a catalyst to if you like to bring about significant growth in the economy by helping businesses to grow beyond if you like their limits. Do not forget that it is not that easy to access funding in our part of the world."

"We see ourselves as agents because we form one part of the group of participants within the spectrum.... trying to match the investor and the investee, you become more or less like a middle man" (Fund Manager A)

Supporting sustainable business was the notion of fund manager B from a system perspective in their role as agents of societal solution. Besides, fund manager E views support to early-stage businesses as critical for livelihood enhancement.

"I believe that businesses must be sustainable; I also believe that they must generate impact. Also, the way they are sustainable is incentives; I mean profits. Moreover, so, my role is to find these sorts of businesses that can provide opportunities especially in terms of employment, in terms of taking care of the environment...."- (Fund Manager, B)

"if you are selling to the BoP, you are selling to make money, but at the same time you are changing their lives without you selling the product, you cannot make money, and you cannot change their lives"- (Fund Manager, E)

Emerging findings from the role of CMB fund managers and SME investee owner-managers as agents of social transformation consist of the following: 1) Catalytic role 2) Filling institutional void 3) Support to BoP communities 4) Promoting inclusion through access to information, credit, and energy.

CMB fund manager operational strategy deployment through investee SMEs also focused on job creation metric as a critical social impact indicator. Curiously, the issue of job creation is directly linked to the social impact measurement challenges in literature, which suggests a lack of standardisation. The metric of job creation was divided into two segments consisting of new jobs created and existing jobs sustained through the investments. Other dimensions of impact relate more to contribute to economic development through SME investees, taxes, and market-wide effects. Table 6.9 below illustrates job creations by CMB fund managers through SME investees with other funds under management.

Table 6. 9 Job creation matrix of CMB fund managers through SME investee

Social impact	Fund Manager A		Fund Manager B		Fund Manager D	
Fund type	Fund I	Fund II	Fund I	Fund II	Fund I	Fund ¹¹ II
Jobs created and sustained	43,600	35,250	2,946	4,374	1,000	4,000
Entrepreneurs supported	6,090	1,260	26	20	8	2
Livelihood impacted	218,000	176,000	19,149	30,370	4,000	1,000

Source: Authors illustration from PhD data

In summary, evidence of investee SMEs that strategy of social impact and financial returns were uncovered. These strategies reflect integrated, single unified, embedded, and complementary. There were also high growth and established SMEs that were more financial returns oriented with social impact incidental to their goals. Moreover, CMB fund managers and owner-managers of SMEs viewed their role as agents of social transformation in allocating capital and serving BoP communities, respectively. Job creation, which represents an easy to measure evidence of social impact forms a fundamental matrix for all CMB fund managers. While the evidence presented shows that CMB fund managers are ensuring that investee SMEs realise a dual goal, critically it can be noted that sectors targeted automatically realise the social impact. The financial returns priority of CMB fund managers is the first justification for investment. Hence, job creation metric is mostly measured — moreover, there is selectivity of SMEs in sectors that exhibit high growth, scalability, and automatic impact.

6.6 Chapter Summary and Conclusion

This chapter aimed at applying the theoretical framework developed in Sub-section 2.8.1 of chapter two to uncover the influences of Capital Market-based (CMB) funds on investee SMEs through governance, strategy change and impacts. Three theoretical argument informs this study based on the integrated theoretical

¹¹ Fund II was mobilised at end of 2017 with investment starting in 2018. Jobs created, entrepreneurs supported, and livelihood impacted are estimates sourced from documents of the Dutch Good Growth Fund.

framework. Firstly, this study argues that the influences of impact investors can be analysed by examining how impact fund managers deploy governance mechanisms of ownership, control, and board representation. These governance mechanisms are agreed between impact investors and CMB fund managers as the basis for ensuring that investee SMEs realise the dual goals of financial returns and social impact. Secondly, further influences can critically be examined through analysis of strategy change or alignment of CMB fund managers agreed with impact investors during fund structuring for the deliberate realisation of social impact and financial returns through investee SMEs. Finally, the expected impact objectives from impact investors and CMB fund managers can be understood based on the deliberate pursuit of social impact and financial returns. This chapter has applied these theoretical arguments to the case of CMB impact investments into SMEs in Ghana.

First, the study reveals the influences of impact investors on CMB fund managers through an analysis of governance and strategy change by applying an integrated theoretical framework from different disciplines. This research contributes to the debate in the impact investing literature on how impact investors govern fund managers (Geobey and Harji, 2014), how institutional investors implement impact investment strategies (Hotchstadter and Scheck, 2015; Ormiston et al., 2015; Wood et al., 2013). By developing a framework (Fig. 6.2) detailing how impact investors influence CMB fund managers in deliberate pursuit of social impact and financial returns in BoP communities. By analysing DFI's (representing impact investors) and CMB fund managers in Ghana, an essential destination of impact investment capital, significant findings emerge. The findings demonstrate that impact investors through governance mechanism of ownership, control and board representation influence the pre- and post-investment strategies of CMB fund managers based on the agreement during fund structuring. These influences aim at the implementation of impact investment strategies (Hotchatdter and Scheck, 2015; Ormiston et al., 2015) by CMB fund managers.

Second, the research uncovered influences of CMB fund managers on investee SMEs based on governance, strategy change and impacts. The research contributes to the debate in the impact investing literature on how impact investors govern investee SMEs (Geobey and Harji, 2014.) in deliberate pursuit of social impact and financial returns (Peredo and Mclean, 2006; Seelos and Mair, 2005). By developing a framework (Fig 6.1) which depicts the influences of CMB fund

managers on investees through governance mechanism of ownership, control, and board representation. These governance mechanisms are deployed to influence the strategies of investee SMEs pre- and post-investment. The 'how' of impact investment strategy depends on finance-first, hybrid, or impact-first strategy of CMB fund managers. Any of which entails selective SME investment, financial returns and ESG considerations as pillars of investment consideration and social impact orientation. Finally, impacts realised through investee SMEs by way of strategy encompasses deliberate pursuit of social impact and financial returns from the social entrepreneurship literature (Austin et al., 2006; Peredo and McLean, 2006; Seelos and Mair, 2005) emerged. These strategies reflect integrated, single, unified hybrid, embedded and complementary. Some of these findings through transformational does not seem to be surprising.

Impact investor objective of alleviating intractable societal problems through development established in the context review of Section 3.2 shows evidence of the transformation that CMB fund managers are pursuing. High growth, missing middle and established SMEs targeted by CMB fund managers in sectors including agriculture, education, off-grid energy, and financial services can be described as transformational in BoP communities. These sectors represent priority sectors of impact investors and where social impact can be observed to be automatic in terms of many people whose livelihood can be affected. With the emergence of impact funds focusing on agri-business and technologies that provide solutions to farmers in such BoP communities, evidence of impact can be observed. Further, unreliable energy from the national grid implies that many people in BoP communities were denied access to energy, as reviewed in Section 3.2. CMB funds investment into investee SMEs providing off-grid solar solutions on a credit basis allow women in rural and peri-urban communities to procure such products and use in their respective homes. This further show how BoP communities are impacted. Job creation for sales agents and distributors emerged who are mostly in BoP communities.

Further, the object of promoting financial inclusion and creating more entrepreneurial financing opportunities within the research setting of Ghana manifest through the growing adoption and usage of mobile financial services. Thus, incentivising CMB fund managers to invest in MFI's and NBFIs. Allocating impact investment capital to such institutions for acquisition of ATMs, and mobile money

points of sales and software to upgrade their existing technology can be observed and termed transformational. Creating more opportunities for the youth through manufacturing and other economic ventures within the emerging oil and gas industry can also potentially eradicate the menace of unemployed youth engaged in artisanal or illegal mining.

Critically, some of the CMB fund managers invest in struggling established SMEs, pay-down their obligations to bank-based fund managers, and restructure the business through governance and strategy change. Such approach denotes evidence of quick-fixes and unwillingness to nurture other high growth SMEs that are seeking for impact investment capital. Such a strategy is plausible with a critical analysis of the fund economics of CMB fund managers. Evidence which answered RQ1 of section 1.3 and in line with the objectives of the chapter, the study presented analysis on the nature governance at the investor-fund manager level and fund manager-SME investee level. At the investor fund manager level, evidence showed investor influences on fund managers through minority ownership in funds, shareholder rights through a partnership agreement, and equal voting rights. Ownership dimension of governance cascade into control rights through fund manager limits to sectors, geographies, and deal size. Board representation at the fund level granted impact investors board rights and voting rights through the LPAC. Voting rights were available to all shareholders in the fund on matters that affect the partnership and shareholders agreement.

Empirical evidence of how CMB managers govern SMEs that pursued dual goals were uncovered in the way in which ownership, control and board representation are constituted and operationalised between the fund managers and the owner-managers of SMEs. The critical empirical findings are that generally CMB fund managers acquire significant minority interest (up to 49%) in investee SMEs, appoint independent directors to their board and restrict strategic decisions which require their consent. From ownership dimension, CMB fund managers took significant minority interest with equity funds, secured voting rights and power to remove CEO in exceptional cases. Emerging evidence on governance via control showed that CMB fund managers utilised minority protection clauses, milestone investments, rights of first refusal for entrepreneur's equity stake and vesting to influence SME investees. Board representation constituted the third dimension of governance that fund manager adopted to influence SME investees. The evidence

shows that board representation granted fund managers voting rights and board rights when equity capital SME investees. These rights enable fund managers to reduce information asymmetry, influence strategic decision, formalisation of governance systems and enhance the legitimacy of the investee to access other resources from the financial landscape.

In presenting the analysis and findings, strategy change at the impact investor-fund manager level were initially presented due to the correlation with fund manager-SME investee level evidence to show why of strategy change to answer research question 2 in Section 1.3. The analysis presented showed evidence on strategy change and alignment of CMB fund managers to DFI's at the investor-fund manager level. Emerging evidence relate more of strategy alignment of fund managers rather than strategy change as argued in the theoretical framework. Fund Managers A, B, D and E, have aligned their strategy. For fund manager C, the evidence appears more coincidental that their first and only fund under management was exactly what impact investors required a few years within the emergence of impact investing. Fund Manager A is adopting the same investment model, operational strategy, and post-investment support services. However, with the emergence of impact investors, fund manager A aligned their strategy and presented an investment philosophy of an embedded social impact and financial returns to access a large pool of capital including technical assistance facilities. Fund Manager B utilised the first phase of their set up to experiment their investment model with an embedded impact strategy basically from funding from private investors then grew regionally through DFI's in their second fund. Strategy alignment with the emergence of impact investing evidence through access to DFI's, family offices, and philanthropic organisations that invested in their fund model encapsulating social impact and financial returns in Africa.

At the fund manager-SME investee level, the chapter presented evidence on CMB fund manager influences on SME investee strategies to realise the social impact and financial returns. Evidence showed that CMB fund managers modified and shaped strategies of SME investees generally through pre-investment processes and post-investment monitoring and support. Finally, the analysis of expected impacts (financial and social) was presented as depicted in the theoretical framework. The primary evidence of social impact is the focus on job creation by SME entrepreneurs and CMB fund managers including others in BoP communities

depicted in figure 6.2. Financial returns findings indicate revenue growth, profitability, repayment of capital deployed and interest for debt funds and contribution to economic growth through taxes, pension, and insurance schemes. Evidence emerged on the role of entrepreneurs and CMB fund managers in search of a solution to societal problems. The next section presents a discussion of findings and conclusion of the study.

CHAPTER 7

Discussion and Conclusion

7.1 Introduction

This thesis develops and critically explores two qualitative case studies that reveal the role of bank-based and capital market-based impact investments in addressing SME financing in Ghana through a theoretical lens that integrates governance, strategy change and impacts. As the research setting for the two empirical case studies, Ghana represents a suitable BoP context for this thesis considering the myriad of societal problems in some communities. In the past these research themes have been largely addressed within discrete disciplinary silos. This research applied an integrated theoretical framework drawing on different academic disciplines to uncover four significant findings. These findings include distinctiveness of finance and impact first investors; uniqueness of bank-based and capital market-based intermediaries; entrepreneurial financing through impact funds versus traditional financing; high growth, missing middle and established categories of SMEs for impacts. These findings have implications for multiple stakeholders within the impact investment ecosystem.

In arriving at the findings, the study sought to understand and explain how impact investment funds through governance, strategy change, and impacts ensure that SMEs simultaneously realise dual goals in BoP communities. This has resulted in an important research gap, which requires a more integrated approach. The study has brought together relevant sources from the following contributing literatures: impact investments (Höchstädter and Scheck, 2015; Ormiston et al., 2015), fund governance and strategies (Gompers et al., 2016; Kaplan and Stromberg, 2009); entrepreneurial financing (Cumming et al., 2019; Ayyagari et al., 2011; Abor and Biekpe, 2007), social entrepreneurship (Luke and Chu, 2013; Peredo and McClean, 2006; Seelos and Mair, 2005), SME management (Beck, 2013; Abor and Biekpe, 2010) and the governance of bank – SME relationship (Vashishtha, 2014; Chakraboty and Ray, 2006; Peterson and Rajan, 1994). I have drawn on these diverse sources to develop an integrated theoretical framework. I have applied this framework empirically, taking Ghana as a research setting. I used the initial findings to refine the framework and for further theory building and elaboration purposes.

Bank-based funds and SME analysis presented in Chapter 5 uncovered three governance mechanisms that impact investors adopt to influence bank-based fund

managers to deliver on social impact and financial returns expectation as intermediary fund managers. These mechanisms comprise pre-approval processes, control and monitoring. Similarly, governance mechanisms deployed by impact investors to influence BBF managers also manifest at the fund manager-SME level. Extant literature on banks financial intermediation (Boot, 2000) have focused on accepting deposits for on-lending to customers, risk management and financial performance. Impact investors represented by DFI's in this PhD study exert influences on bank-based fund managers through governance and strategy change to realise expected social impact and financial returns by financing SMEs. Previous literature however focused more on two of these governance mechanisms namely control and monitoring (Vashishtha, 2014; Bharath et al, 2011; Scarlata and Alemany, 2010). Internal governance mechanism in the view of Bharath et al (2011, p.1142) aims to "screen-out" low quality borrowers and are usually compounded by information asymmetry (Dass and Masa, 2011).

Strategy change by bank-based fund manager represent more of strategy alignment to secure impact investment funds for liquidity management and capital adequacy requirements. These evidences reflect more of strategic adaption view of the firm (Boeker, 1997; Vicente-Lorente and Zuniga-Vicente, 2006) of explaining the 'why' of strategy change by BBF managers. Access to manage funds, collaboration with DFI's, securing of long-term funding and financing of BoP SMEs at the impact investor-fund manager level enabled financing of projects, sectors and SMEs that hitherto were neglected as agents of private wealth creation. Evidence presented shows that BBF managers target different categories enterprise namely high growth, missing middle and established to realise dual goals of social impact and financial returns. Social entrepreneurship theory provides understanding of 'how' about strategy change including integrated, complementary, unified hybrid strategies are deployed by BBF to ensure that SMEs realise dual goals.

Capital market-based funds typically follows the structure of private equity and venture capital funds. Previous studies on structure of private equity funds and governance shows arrangement of capital commitment by limited partners representing shareholders and fund managers as general partners (Kaplan and Stromberg; 2009; Metrick and Yasuda, 2011). Analysis in empirical chapter 6 uncovered, ownership, control and board representation as governance mechanisms. These governance mechanisms between impact investors and CMB fund managers further manifest at the fund manager-investee SME level. Impact

investors appoint nominees to the funds advisory committee and ensure compliances to clauses, terms, and conditions in shareholders' agreement by the fund manager as governance mechanism. Strategy change influences at the investor-fund manager level uncovered evidence that shows that impact investors commit capital to fund managers that demonstrate an impact investment strategy in their investment policy. Moreover, integration of ESG and SDG consideration prior to investing in SMEs were critical in accessing impact investor funds. CMB fund managers target enterprise that adopt integrated, complementary, embedded, and unified hybrid strategies to realise social impact and financial returns explaining the 'how' of strategy change.

The remaining sections are structured as follows: Section 7.2 discusses theoretical findings through cross-case analysis of bank-based and capital market-based funds. Section 7.3 presents theoretical contributions of the study and implications to policy and practise. Section 7.4 sets out limitation of the research and future directions. Section 7.5 concludes the chapter.

7.2 Research findings: a cross-case comparison

This section analyses the main theoretical findings from the two sets of cases presented in chapters 5 and 6. Having reviewed the literature and applied the integrated theoretical framework to the empirical research setting of Ghana to examine two sets of cases in the previous two chapters, emerging findings are discussed through cross-case analysis. A cross-case analysis involves comparing the similarities and differences in the accounts within each case study, which helps to improve the elaboration, accuracy and reliability of the theory developed from the cases (Miles and Huberman, 1994). Eisenhardt (1989) further suggest that theory elaboration involve demonstrating that a theoretical approach has sustained a case-replication method.

This thesis produced four main findings: distinct categories of impact investors (finance first, impact first and hybrid); Bank-based versus Capital market-based funds as unique intermediaries of impact investments; Impact funds versus traditional entrepreneurial financing; Impact investing and social entrepreneurship-uniqueness and similarities of high growth, missing middle and established investee SMEs

7.2.1 Distinctiveness of Bank based versus Capital Market Based funds

A major motivation of this study set out in Section 1.1 and objective in section 1.3 was to uncover the characteristics of bank and capital market-based impact investment funds in SME financing in BoP communities through governance, strategy change and impacts. This distinctiveness has been evidenced through three theoretical concepts and different variables. Previous impact investing literature have examined impact investment intermediaries namely venture philanthropy (PhVC) (Scalarta and Alemany, 2010), social venture capital funds (Spiess-Knafl and Aschari-Lincoln, 2015), mainstream versus social venture funds (Rajan et al, .2014) all representing categories of capital market-based funds. Rajan et al., (2014) compared mainstream venture capital fund (MVC) and social venture capital (SVC) fund. Rajan et al (2014) conceptualised SVC's as impact investing funds and noted 10 evidence of differences compared to MVC. These differences correspond to the key features of CMB funds in this study based on strategy change.

Bank-based funds in the context of managing impact funds has received little attention in financial intermediation literature. Previous studies of BBF focused on intermediated funds for on-lending to SMEs and large corporates. Emerging differences and similarities between BBF and CMB funds as intermediaries represent a major finding as discovered in the two sets of cases presented in Chapters 5 and 6. Section 2.2 of the literature review uncovered BBF and CMB funds as intermediaries of impact investment capital and Section 3.4 situated them within the financial architecture in Ghana as recipient of impact investment funds. These sets of intermediaries comprised sample of research participants accessed for data collection and analysis. This further shows that distinctness and similarities of BBF and CMB funds represent an important finding based on governance, strategy change and impact.

While BBF deploy internal approval processes, control and monitoring as governance mechanisms, CBM funds generally utilise ownership, control and board representation to influence categories of investee SMEs. Internal pre-approval mechanisms adopted by bank-based fund managers to influence SMEs aim at eliminating adverse selection. Bharath et al (2011) suggests that lenders such as banks invest in due diligence to determine quality clients and facilitate screening-out of poor borrowers (adverse selection). In terms of control, covenants, terms and conditions in loan contracts impose limitations on SMEs supported by bank-based fund managers in BoP communities. This evidence is in line with Chava and Roberts (2008) suggestion that control rights reside with borrowers (SMEs) provided they are not violated. However, when covenants are violated, control rights shift to bank-based fund managers which enable them to intervene in management and investment to ensure investment returns (Chava and Roberts, 2008, p 2088). In effect bank-based fund influence via control on SMEs financed serve as disciplinary means to ensure compliance to objectives of social impact and financial returns. Moreover, Vashishtha (2014) further find that covenant violation enables lenders to take immediate action to either bank-based funds to take action for accelerated repayment or terminate pending commitment. Peterson and Rajan (1994) finds that monitoring provides banks access to information on borrowers including cash flows and balance sheet. Finally, Chakroboty and Ray (2006) notes that monitoring is critical for banks as it enable them to resolve agency problems.

CMB funds governance mechanism of ownership evidence is consistent and extends the application of private equity and venture capital governance from

ownership perspectives (Gompers et al., 2016; Connelly et al., 2010) to impact investments. What is unique from the impact funds analysed is that in terms of ownership, impact funds within the research setting acquire significant minority interests instead of majority ownership in extant literature on private equity and VC funds in the developed economies (Kaplan and Stromberg, 2009; Gompers et al., 2016). Kaplan and Stromberg (2009) observe that private equity funds acquire majority control in existing firms.

Strategy change evidences of BBF revealed that through collaborative impact funds, grants and guarantees, revolving funds and other incentives from impact investors, bank-based fund managers allocated capital to previously under-banked and unprofitable sectors such as health, education, water and sanitation. Moreover, financing of initiatives aimed at promoting financial inclusion in BoP economies through MFI's, agency banking and mobile money distributors and agents. In addition, provision of value chain financing within the agri-business sector by connecting MNC's, SMEs and farmers in BoP economies that hitherto were perceived as high-risk, low-returns sector. This evidence reflects more of strategic adaption view of the firm (Boeker, 1997; Vicente-Lorente and Zuniga-Vicente, 2006) which suggest that managers continuously monitor external environmental changes and ensure internal strategy fit to external contingencies. CMB fund managers' strategy change or alignment uncovered the reality of selective investment in high growth and established SMEs in alignment with an impact investment strategy of integrating social impact and financial returns. Also, board appointment and independent directors to the investee SME boards irrespective of minority interest. Embedding ESG and SDG in the due diligence process and expecting investees to fulfil these expectations post-investment represents significant differences from BBF on strategy change to influence investee SMEs.

Technical assistance facilities which hitherto were for Government infrastructure projects now serve as enablers for investees to improve capacity, acquire financial reporting software and strategically operate in accordance with international standards. Such post investment support represents what Gompers et al (2016) and Kaplan and Stromberg (2009) finds termed as value addition that private equity and venture capital funds provide for their portfolio. Evidence of social impact presented reveals different dimensions. These includes supplying products to BoP economies, poverty reduction, increased household income, job creation; improved access to education and health; and access to reliable energy confirming

existing social entrepreneurship (Austin et al, 2006; Desa, 2012; Luke and Chew, 2013) and impact investing literatures (Addis et al., 2013; Hotchstadter and Scheck, 2015). These evidences to Hotchstadter and Scheck, (2015) represent positive social impact and reflect instances of non-financial returns. Similarly, emerging findings on financial returns dimension of these SMEs is consistent with extant literature in terms of economic and social value (Seelos and Mair, 2005) commercial goals (Paredo and McLean, 2006) and ability to return investment capital to fund managers, preservation of invested capital, and allow market return (Hotchstadter and Scheck, 2015) to impact investors (Addis et al., 2013; Ormiston et al., 2015).

The differences and similarities observed based on governance, strategy change, and impacts are significant because of impact investor motivation and expectation of realising social impact and financial returns. The following evidences detailed in Table 7.1 reveals the differences among the sets of cases.

Table 7. 1 Governance, strategy change and impact distinctiveness of BB and CMB Funds

Theoretical concepts	Variables	BBF	CMB
Governance mechanisms	Ownership, control and board representation	Pre-approval; Control and Monitoring	Ownership, control and board representation (Equity funds) -Pre-investment screening; control and monitoring (Debt Fund)
Strategy change and / alignment	Sector/Geography/strategy	Agri-business value chain financing; financial inclusion; social sector financing; Water and Sanitation financing; financial returns first alongside social impact	Agri-business; education; health; financial services; Finance first, impact first and hybrid finance-impact first; institutionalised ESG; priority sectors; technical assistance; post investment support; 5-7 years monitoring; social impact and financial returns
	Financing instrument	Debt, Trade Credit, and Guarantees	Debt, Equity, Convertible debt, Guarantees, Grants
	Average transaction number	Relatively many	Relatively few
	Average funding duration	Short, 1-3 years	Medium, 5-7 years
	Consequences of default	Short renewals with charges; legal action; excessive tension arises	Solution-oriented; restructuring; relationship management for improved results
	Post financing support	Advisory	Technical assistance support towards strategy, capacity building, procurement, and recruitment.
	SME owner perception	Finance or returns-oriented	Better in managing relationship
Impacts	Financial returns	Cash flow generation, profitability; turnover; growth	Investor indicators; firm-specific viability; economy-wide contribution
	Social Impact	Job creation; financing of BoP communities and SMEs; out grower-scheme finance	Financial inclusion; employment-related; market access and sourcing from BoP communities for wealth creation
	Simultaneous impact and returns	Target SMEs that seek: Financial returns plus CSR; MFIs for financial inclusion, finance SMEs that deploy out-grower schemes	Target high growth and established SMEs to promote financial inclusion eg NBFIs and MFIs; agri-business and manufacturing enterprises;

Source: Authors illustration of cross-case analysis based on empirical chapters

Bank-based intermediaries managing varied funds on-behalf of impact investors for specific high growth and established SMEs represent significant channels for realising developmental objectives. Some bank-based funds aim to achieve the expected dual objectives in different sectors, and market segments. They attract impact investors because of the established network of branches, human capital, effective corporate governance structures and existing database of clients to facilitate delivery of social impact and financial returns. These features uniquely position them as unavoidable financial agents to realise developmental objectives. BBF managers are therefore capable of financing many clients in BoP communities through different impact fund models to reduce poverty, social transformation, improve income and wealth creation (Rajan et al., 2014; Addis et al., 2013; Paredo and McClean, 2006). However, three major issues or challenges emerge where banks are managing impact investor funds as bank-based fund managers. First, bank-based intermediaries deploy both intermediated funds and managed funds of impact investors to different categories of investee SMEs. The choice of deploying intermediated fund versus impact fund given risk-return relationship poses a challenge. Secondly, tension of deliberately realising social impact and financial returns through SMEs financed arises. A need for employee capacity development for effective provision of such service create issues for officials. Lastly, BBF managers demand all requisite risk-mitigating instruments from SME owners even where guarantees are available to avoid reputational risk of calling-in the guarantee because of client default.

CMB fund managers deliver the expected financial returns and social impact-based on their unique structure, governance, and strategy change. Debt fund managers, through pre-approval screening, selective investment of businesses, viability, and entrepreneur test, embedded ESG consideration, post investment monitoring and technical assistance support realise social impact and financial returns in BoP communities. Similarly, equity funds managed by CMB fund managers through governance (ownership, control, board representation) and strategy change ensure that investees SMEs realise the expected impact.

7.2.2 Manifesting investor intentionality: Finance first, Impact First and Hybrid Intentions

Three categories of strategic intentions of impact investors emerged from the cross-case analysis, though the strategic intentions overlap in some areas. While previous impact investing literature (Hochstadter and Scheck, 2015; Ormiston et al., 2015) posits distinct finance first and impact first – strategic intentions at investee level, the evidence from this thesis suggest a third category, namely hybrid finance-impact first. As reviewed in section 2.2.1 finance first and impact first investors have different financial returns and impact expectation when committing capital to country fund managers. The review of the institutional context of Ghana evidence this flow of funds into BBF and CMB funds situated within the financial architecture and acting as vehicles for direct investments into SMEs. It is at this fund manager – SME interaction level that the finance-first and impact-first distinction no longer appears as clearly defined as documented in the literature. The findings suggest that, finance-first and impact-first become integrated into a hybrid investment type at country level. This suggests that, as impact investors within the global context decide which financial intermediary serves as effective conduit for their investments, within the local context, the strategies of these intermediaries (or fund managers) changes as they adapt to multiple investor intentions to effectively deliver on their mandate based on strategies presented to investors. This also informs owner managers of SMEs regarding the options for available enterprise financing which comprise returns-oriented, impact-driven or hybrid for enterprise growth and expansion.

The above finding confirms existing literature which indicate ‘what’ an impact investment strategy should be pursued (Brandstetter and Lehner 2015 Höchstädter and Scheck, 2015; Ormiston et al., 2015; Wood et al., 2013), however the ‘how’ of that strategy is demonstrated through social entrepreneurship theory (Batillana et al 2011; Austin et al., 2006; Seelos and Mair, 2005). The strategies of BBF and CMB fund managers in manifesting the motivations and objectives of finance-first, impact-first or hybrid to some extent determine SMEs targeted. Evidence presented from the two cases shows some high growth SMEs that deploy integrated strategy of social impact and financial returns. Some established and missing middle SMEs emerged in the area of financial inclusion adopting a unified hybrid strategy. Also established SMEs that employ complementary strategy of profit and some CSR while other missing middle SMEs adopted an embedded social purpose strategy within their operations and sectors. These evidences seem that social impact is

purposed by the funds but whether they are transformational enough in BoP communities is not apparent because of the manifestation of finance-first, impact-first, and hybrid in the strategies of bank and capital market-based fund managers. Capital commitment from different categories of investors determines finance first and impact first orientation at the fund manager- investee SME level. Investee portfolio of the hybrid fund managers comprise high growth and missing middle SMEs that deliver high financial returns relative to social impact and others that deliver high social impact relative to financial returns. Typical funds managed by BBF tend to be finance first. However, collaborative funding arrangement between BBF and impact investor (e.g. DFIs and USAID) represent hybrid of finance-impact first.

Similarly, CMB fund manager evidence shows that a fund is more finance first based on the type number of institutional investors in the fund with and relativity of their financial return expectations. There was one pure impact first fund manager which secure resources from philanthropic donations. The fund manager posit that their portfolio had a mix of finance and impact first. However, they dwell more on how investee SMEs embed social impact strategies in their operations and objectives. Hybrid finance-impact first targeted enterprise operating in agri-business, education, health, and manufacturing. Therefore, an impact investor has several choices of committing capital to achieve developmental objectives in BoP communities. An option of debt to BBF with generally high finance return expectations or collaborative arrangement with BBF mainly debt. Three option await an investor in choosing a particular CMB fund with both hybrid finance and impact, more financial returns driven and CMB fund with an overarching social impact and floor on financial returns. Some of the previous studies (Hotchstadter and Scheck, 2015; Ormiston et al., 2015) have focused on global context of finance first and impact first and social venture funds (Spiess-Knafl and Aschari-Lincoln, 2015; Rajan et al, .2014). This study is the first to evidence these three distinctiveness of impact investors at the fund manager level from bank-based and capital market-based funds. Evidence of differences and similarities based on governance, strategy change, and impacts were presented earlier in Table 7.1 of subsection 7.2.1

7.2.3 Impact on High Growth, Missing Middle and Established SMEs

The results from analysing two case studies reveals the nature of the impacts that impact investments are having on three categories of SMEs. SMEs are studied in this thesis as for profit-social enterprises that pursue social and commercial goals, which underpins the objective of impact investments and the theoretical lens of social entrepreneurship reviewed in Chapter 2. Evidence presented in the two empirical chapters show illustration of how BBF and CMBs impact on SMEs through direct funding, strengthened governance mechanism and tools/frameworks for demonstrating/measuring the extent to which the objectives of social impact and financial returns in BoP communities are being achieved. CMB fund managers invest in relatively few high growths, and established SMEs to realise the expected developmental objective, in what many of the interviewees acknowledged can be seen as quick wins. Milligan and Schoning (2011) observed that management fee of fund managers serves as a major determinant for targeting relatively larger enterprises. The selectivity of these few high growth and established SMEs in different sectors mainly agri-business, manufacturing, health, education and other essential services sectors imply more SMEs with dual objectives are excluded especially micro enterprises and small social enterprises (Milligan and Schöning, 2011). Evidence uncovered shows that CMB fund managers focus on relatively few deals and large deal size compared to BBF managers which can be attributed to the fund economics and personnel size.

High growth SMEs indicated in subsection 2.2.3 exhibit high growth potential (Nelson and Levesque, 2007) and not gazelles (Delmar et al., 2003). Evidence from this study based on the two empirical cases in chapter 5 and 6 show different types of these category of enterprise that have experienced growth based on governance, strategy change and impact through impact funds. Previous literatures on high growth enterprises have focused on sales, employees, size, revenue and managerial capacity (Brown et al., 2017; Obeng et al., 2014; Goedhuys and Sleuwaegen, 2010; Nelson and Levesque, 2007; Delmar et al, 2003) with little attempt to consider governance and strategies of these enterprises. Case illustrations, box two in section 5.3 and box seven in section 6.5 represent two examples of high growth enterprises which realised employment growth, financial returns and social transformation in BoP communities. This evidence reflects semblance with the expression adopted by Grimm et al., (2012) as “constrained

gazelles” within the informal sector in many West African countries. High growth enterprises have attracted both bank-based and CMB funds to realise strategic objectives and developmental impacts. Features of these enterprises include older owner managers, more experienced in managing enterprises, good governance systems and a diversified board of directors and more than 10 years old from the time of incorporation.

Missing middle enterprises from the empirical chapter 5 attracted subsidised funding from BBF that accessed guaranteed and incentivised impact investor funding. Some of these enterprises operate in health, water and agric-business sectors. Further, others based on strategy change involving integrated and complementary social impact and financial returns strategy attracted such funding. For example, MFIs supported by BBF exhibited in 5.3.4 constitute enterprises that Jones and Turner (2014) posit that they require funding of \$200,000 to \$2 m. Quartey et al., (2017) submit that missing middle SMEs in SSA lack collateral for commercial bank loans relatively to larger businesses, but too big for micro loans and government support schemes. The governance of these enterprises varied with small board size mainly family members, growing formality of structures and controls and more receptive to debt than equity capital. An example of a missing middle that welcomed equity capital is SM2 presented in section 6.3 box six which remained small for almost 15 years. Impact investor equity funding, appointment of independent director and influence on strategy enabled the enterprise to realise growth and developmental impact. Previous literatures Jones and Turner (2014) and Milligan and Schöning, (2011) have noted significance of missing middle SMEs for developmental impact and financial returns. However, such enterprises tend to be financially constrained (Beck, 2013; Ayyagari et al, 2011; Robson and Obeng, 2008). Impact investment funding has therefore alleviated some of the constraints of these enterprises through governance mechanism, strategy change and impact.

Established SMEs that attracted both bank based and CMB funds have governance control systems, are receptive to appointment of independent directors on their board, and operated for more than 10 years (Robson and Obeng, 2008; Autio, 2007). Established SMEs permitted minority equity interest from CMB fund managers and engaged with strategy development and implementation with funders. The strategy changes of this category of SMEs that simultaneously pursue social impact and financial returns enabled them to access impact investment capital, achieved business expansion and growth and secured legitimacy for

alternative funding. Emerging observation from the empirical analysis is that some of these categories previously secured commercial bank funding at exorbitant interest rates resulting in over-indebtedness. Therefore, impact investment provided window of financial opportunity as shown section 6.3. Rajan et al (2014) finds that investee companies in BoP economies accessed who were unable to secure mainstream finance had access to social venture funds to for expansion with the emergence of impact investing. Access to subsidised funding, post financing advisory support, secure legitimacy, and alternative funding from CMB funds while achieving growth and expansion in target market and international markets.

Policy attention to these enterprise categories of high growth, missing middle and established SMEs is essential because of their ability to overcome entrepreneurial financing constraints and attract impact investor capital within the enterprise architecture. Further, developmental impacts of such enterprises in job creation, wealth improvement in BoP communities, providing access to water, sanitation and health as agents of social transformation (Rajan et al, 2014; Addis et al., 2013; Seelos and Mair, 2005) through access to funding require attention of academics, policy makers, pension fund managers and regulatory institutions.

7.2.4 Alternative enterprise financing: Impact funds versus traditional sources

Impact funds emerged as an alternative source of financing for entrepreneurs, high growth and established SMEs with social impact and financial returns goals compared to traditional financing in BoP communities. Entrepreneurial financing literature document traditional bank financing of debt, trade credit, and guarantees; venture capital financing, business angels, private equity financing, microfinance and stock exchange for large businesses (Cumming et al., 2019; Harrison et al., 2016). In recent times alternative entrepreneurial financing sources and providers have emerged including business angel, impact investing, crowdfunding and other forms such as incubators and accelerators (Cumming et al., 2019; Harrison et al., 2016). The next three paragraphs discuss and show evidence of similarities and differences of impact funds as alternative financing to traditional enterprise funding source and provider.

Private equity, venture capital funds and other emerging funding described in the entrepreneurial finance literature as patient capital (Harrison et al., 2016) represent long-term funding sources for growth stage and early stage enterprises

alongside technical value addition to the entrepreneurs (Kaplan and Stromberg, 2009). Evidence of social impact intentionality and integration in the business models of PE/VC funds were not explicit. In recent time however, impact funds have emerged as alternative financing to entrepreneurs and SMEs with social impact and financial return goals to traditional financing in BoP communities. CMB Impact funds have drawn on the strategies and governance mechanisms of private equity and venture capital funds (Gompers et al., 2016; Kaplan and Stromberg, 2009). Along a continuum, a CMB fund could be described as venture capital fund when they target start-ups and early stage enterprises. At the extreme end of the continuum, a CMB fund could also be described as a private equity fund when they target larger transactions (Milligan and Schoning, 2011) such as high growth, missing middle and established investee SMEs with higher financial return expectations (Harrison et al., 2016). These categories of investees characteristically require large deal sizes, formalisation of governance structures, strategies to scale and secure legitimacy to break-out into large businesses for initial public offering (IPOs). These similarities and evidences permit theoretical descriptions of impact funds as PE/VC funds and beyond venture philanthropy.

Four major conditions differentiate CMB funds from a typical PE/VC fund within the research setting of Ghana namely governance, strategy change, impacts and deals size. First, from a governance perspective a typical PE/VC fund manager like those in developed economies acquire significant majority interest in an investee company (Gompers et al., 2016; Kaplan and Stromberg, 2009). However, the evidence from the empirical chapter 6 reveals that CMB funds acquire significant minority interest in investee SME. Even exceptional cases of debt fund, example from the analysed data uncovered that a CMB fund manager which currently invest debt only previously invested equity of about 20% in addition to debt before they amended their policy to invest only debt. Second, strategies adopted differ. For instance, the buy and fire, restructure, invest and later sell strategies of typical PE fund is less evident compared to the CMB funds. In addition, PE/VC funds focus generally on sectors which provide high level of market, above market and commercial returns with incidental social impacts with little (if any) intentionality.

However, CMB funds prioritise sectors generating relatively high social impact and financial returns that are significantly influenced by investors. Exclusion list further restrict CMB funds to allocate capital to sectors such as oil and gas, mining, construction, tobacco, alcohol manufacturing due to environmental impact

and negative externalities. On the contrary, financial orientation of PE/VC funds does not restrict them. Third, simultaneous realisation of social impact and financial returns expectations from impact funds further differentiate them from PE/VC fund managers. Large scale infrastructure projects with above market returns constitute a major driver or motivation of the investment decision-making by PE/VC fund manager. This contrasts with the simultaneous social impact and near market or sometimes below market financial returns realised by CMB fund managers. Moreover, deal sizes remain another distinguishing feature of CMB funds and PE/VC funds.

Should impact investors be cautious about private equity/VC fund managers who have either changed or aligned strategies with the emergence of impact investing? To facilitate flow of funds from mainstream investors to impact investing, governance is essential because of multiple funds under management and potential conflict of interest of PE/VC fund managers who have adopted the impact investing label. Suffice to add that it's common to observe a fund management company with multiple funds under management concurrently from different investors. A fund manager could be managing a pure PE fund and another impact fund with different objectives, outcomes, and expectations. These nuances create a huge potential conflict of interest situation which further raises the importance of governance at the investor-fund manager level. Evidence presented based on strategy change and alignment shows that PE/VC fund managers that hitherto were agents of private wealth creation have either changed or aligned their strategies as impact investors to access funding. The potential risk of multiple funds under management create is the issue of conflict of interest where a fund manager access impact funds and apply to a pure commercial deal because of the fees and returns to the fund management company. A classic case is the \$ 1 billion Global health Fund with commitments from Bill and Melinda Gates Foundation, IFC, CDC and other investors formerly managed by the now defunct Abraj Group.

Microfinance institutions, Commercial Banks and Government funds represent heterogeneous sources of traditional funding to SMEs in Ghana and many developing countries. Microfinance institutions (MFI) emerged over the last two decades as lower-tier financial institutions providing capital to micro-entrepreneurs and small businesses to alleviate poverty and realise financial returns (Beck, 2013). MFI financing characteristically tend to be small size targeting micro and small enterprises with no collateral, adopting group lending schemes where the social

standing of a member is critical due to group guarantee scheme for repayment (Praseeda, 2011; Ashta, 2012). Two major objectives underpinning MFI activities and funding include economic sustainability and poverty alleviation which other literatures label micro-credit and outreach. MFI funding within the informal sector aims at financial inclusion, social transformation and economic revival in poor communities (Praseeda 2011; Ngoasong and Kimbu, 2016). These objectives of MFIs align with the investment objectives of impact investors. To assure realisation of these goals in BoP communities, MFI's provide loans economically active engaged poor, marginalised from the financial system for economic activities while promoting and empowering them to emerge from poverty.

These social transformation and commercial returns objectives of MFI is also central to impact investors. Therefore, some literatures have sought to equate impact investing to microfinance (Rajan et al., 2014; Ashta 2012). In view of this, impact investors regard MFIs as financial intermediaries in pursuit of dual goals of social impact and financial returns. Thus, through equity and debt capital investments in MFIs, impact investors deliberately realise social impact and financial returns. Further, technical support facilities through grants for capacity building and procurement of software from impact investors enable MFIs to realise their objectives. Evidence of impact investors viewing MFI as financial intermediaries to realise social impact and financial returns in BoP communities emerged. The uniqueness is that these MFIs are not managing the impact investment fund but rather the investment are direct loans repayable over five to six years along with technical assistance support to enable delivery of the expected social impact in the BoP communities.

In terms entrepreneurial financing, impact investment funds are typically different from microfinance first because MFIs are unable to finance medium to large enterprises in the context of developing countries (Beck, 2013). CMB fund managers rather target MFI as investees and commit either equity or debt capital while supporting them to realise the expected social impact and financial returns in BoP communities. Similarly, BBF provide loans to MFI for on-lending to small and micro clients in peri-urban and rural communities to promote financial inclusion. So, through governance, strategy change and impact, CMB fund managers invest in MFI's to meet the need of low-end categories of micro and small enterprises in BoP communities. Second CMB funds investment duration is medium to long term in high growth, established and missing middle SMEs for development. However, MFIs

financing tend to be short term up to 12 months or 18 months. Third, while CMB fund managers could target enterprises at different enterprise growth cycle stage based on the funding size and post investment support, MFI funding after the start-up and early growth stage seems because of the capital requirements at latter stages of the enterprise. Finally, differences exist in terms of financial instrument deployed.

Commercial banks are the key financial intermediaries representing bank-based funds in Ghana. Analysis presented in empirical chapter 5 and implications for commercial banks as effective intermediaries of impact investment capital shows their role in enterprise financing. In Ghana and many developing countries, commercial banks constitute a major external funding source to SMEs (Beck, 2013; Ayyagari et al. 2011).

7.3 Research Contributions

7.3.1 Contribution to theory

First, the study contributes to the theory of impact investing (Hotchstadter and Scheck, 2015; Ormiston et al., 2015) and financial intermediation (Boot, 2000) by explaining and understanding the effects of bank-based funds on categories of SMEs financed from a governance, strategy change and impact perspectives. By developing a new theory in Section 5.2 which builds on existing silo-based agency theory of governance, strategic adaptation/alignment and social entrepreneurship theories of strategy change and impact investing theory of embedded social impact and financial returns, the study theorises the influences of bank-based funds on SMEs financed within the impact investing discipline. The new theory shows how the interaction between impact investors, bank-based fund managers and SMEs that integrate social impact and financial returns in their strategic operations result in a transformation of BoP communities. Finally, the study uncovers the role of these actors (impact investors, bank-based fund managers and SME owners) as catalysts for social entrepreneurial activities in BoP communities.

The second theoretical contributions relate to impact investing (Hotchstadter and Scheck, 2015; Ormiston et al., 2015; Wood et al., 2013) and social entrepreneurship (Battilana et al., 2012; Peredo and McLean, 2006; Seelos and Mair, 2005) theory. By developing a new theory in Section 6.2 which builds on four existing theories namely agency theory of governance, resource-based view of

strategy change, social entrepreneurship theory related to simultaneous pursuit of social and financial returns and institutional theory, by specifically focusing on analysing how capital market-based funds influence investee SMEs in deliberate and simultaneous pursuit of social impact and financial returns in BoP communities. The empirically derived framework in section 6.2 contributes to our understanding of the relationship between impact investors, CMB fund managers and SMEs and the implications for the nature of social impact and financial returns that can be generated by impact investing in BoP communities. The study also advances literature related to impact investing (Hotchstadter and Scheck, 2015; Ormiston et al., 2015; Rajan et al, 2014), social entrepreneurship (Battilana et al., 2011; Peredo and McLean, 2006; Seelos and Mair, 2005) entrepreneurial financing (Cumming et al., 2019) and SME growth literature (Brown et al., 2017; Goedhuys and Sleuwaegen, 2010; Nelson and Levesque, 2007).

First, to understand and explain how bank-based fund managers influence SMEs in BoP communities, a focus on governance, strategy change, and impacts is essential. These influences can be understood and studied at the impact investor-fund manager level (Wood et al., 2013) at the first instance because it manifests at the second instance, fund manager-investee SME level. Impact investor influences on bank-based fund managers within the global context manifest the nature of governance and strategy change employed in the local environment to realise expected impacts. Governance mechanisms of internal pre-approval screening, control reflected in covenants, terms, clauses, remedies for violation embedded in agreements and post –disbursement monitoring cause bank-based fund managers to discharge their obligations in BoP communities. Previous studies on financial intermediation argues that that banks utilise control and monitoring as key governance mechanisms (Vashishtha, 2014, Chava and Roberts, 2008; Boot, 2000). Second, these governance mechanisms agreed with impact investors, bank-based fund managers alter or align their strategies and position themselves as reliable intermediary of transformation in BoP communities to secure impact investment funds (Rajan et al, 2014).

This explains the rationale of strategy change or alignment which manifest in opportunities to manage impact funds, collaborate with DFI's, secure long-term funding for liquidity and capital adequacy requirements. Fund management of commercial banks in developing countries remain unexplored research in the financial intermediation literature (Boot, 2000). The process delivering strategy

change by bank-based fund managers reflect integration of social impact orientation in financing decision, capital allocation, financing processes, and risk management approach in hitherto under-banked, high risk and high impact sectors. Social entrepreneurship theory (Peredo and McLean, 2006; Seelos and Mair, 2005) facilitate understanding of SMEs financed that employ integrated, unified hybrid, complementary, and profit plus CSR strategy (Battilana et al., 2012; Peredo and McLean, 2006; Seelos and Mair, 2005) to pursue social impact and financial returns. These categories of SMEs that simultaneously seek to realise social impact and financial returns either through an integrated strategy or hybrid business model, bank-based funds shaped their strategies.

The second theoretical contribution relates to impact investing (Hotchstadter and Scheck, 2015; Ormiston et al., 2015; Rajan et al., 2014; Wood et al., 2013) and social entrepreneurship (Battilana et al., 2012; Peredo and McLean, 2006; Seelos and Mair, 2005) theory by analysing the influences of capital market-based funds on investee SMEs in BoP communities. High growth SMEs exhibit high growth potential (Nelson and Levesque, 2007) rather than gazelles (Delmar et al., 2003). They are also managed by more experienced entrepreneurs, good governance systems and a diversified board of directors and more than 7 years old from the time of incorporation. Missing middle SMEs in SSA tend to lack collateral to attract large funding from commercial banks and relatively large for MFI loans and government support schemes (Quartey et al., 2017). Established enterprises typically have proper governance systems, receptive to appointment of independent directors on their board, and operated for more than 10 years. These distinct SMEs have attracted impact investment capital from CMB funds for simultaneous social impact and financial returns. CMB fund influences on these categories of SMEs that simultaneously realise social impact and financial returns can be investigated through critical examination of governance, strategy change and impacts.

In studying these influences at the fund manager- investee SME level, it suffices to understand and explain the influences of impact investors on CMB fund managers at the fund level. As thoroughly analysed and presented in Chapter 6, impact investors (limited partners) commit about 98% of capital to a fund initiated by a fund manager (general partner) who also contribute about 2%. In general, most of these impact investment funds are equity funds and tend to generalist in terms of sectors and geographies. There are relatively few funds that represent debt funds only. Generally, impact investors through governance mechanisms of ownership,

control and board representation influence fund managers to realise expected objectives. Limited Partner Advisory Committee (LPAC) represent the advisory board of the fund and act in a fiduciary interest of the shareholders (impact investors). Strategy change of CMB fund managers with the emergence of impact investing shows evidence of strategy alignment to the demands of impact investors.

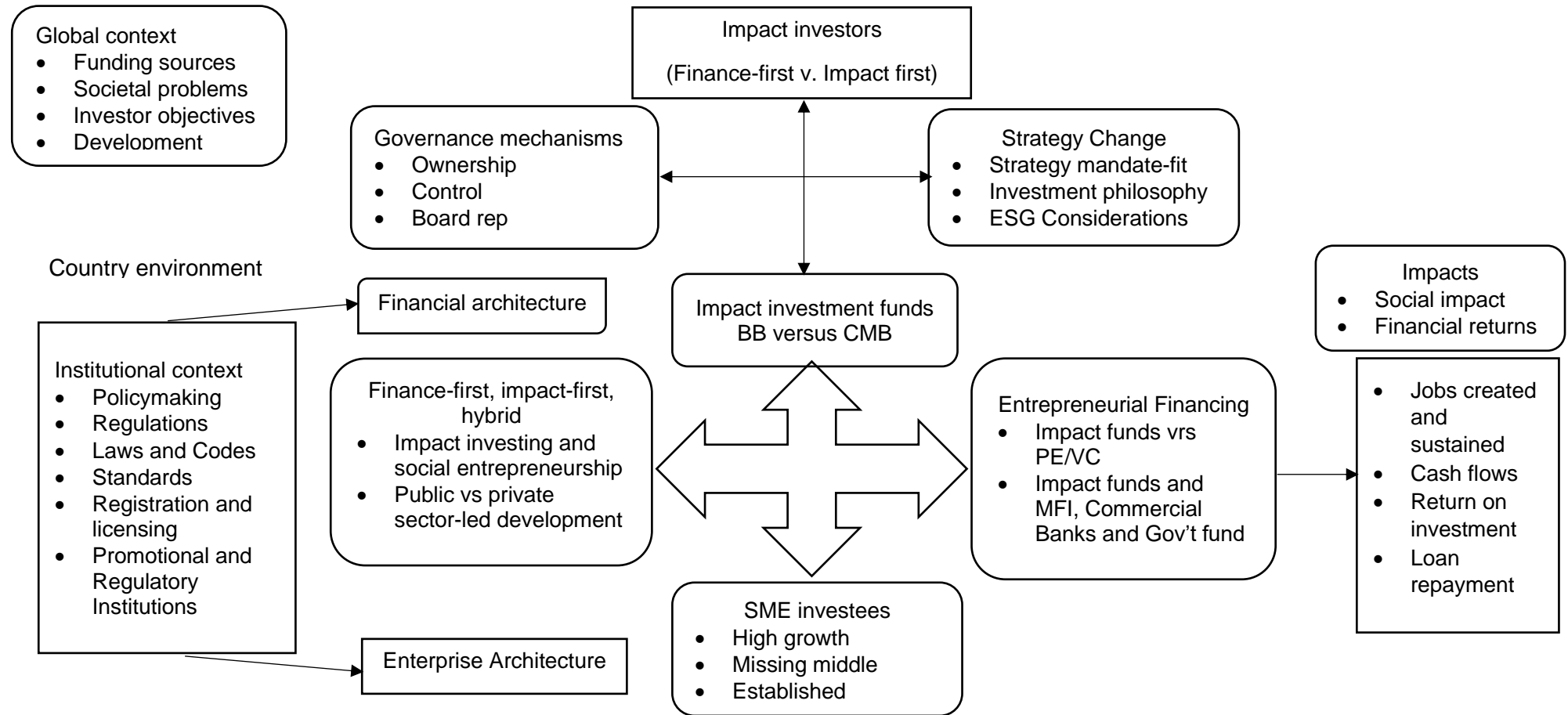
Generally, equity CMB funds deploy ownership, control and board representation as governance mechanisms to influence SMEs. This study builds on previous literature from the economics discipline on private equity and venture capital funds (Gompers et al., 2016; Kaplan and Stromberg, 2009) theory which addresses governance, strategies and value addition through hands-on post investment support to investee. However, this study advances fund management theory and investee governance and explains strategy change of CMB fund managers to deliver social impact and financial returns simultaneously (Peredo and McLean, 2006; Seelos and Mair, 2005). Exceptions however involves debt CMB fund managers that adopt internal approval checks, control, and post investment monitoring as governance mechanisms to influence investee SMEs. Social entrepreneurship theory facilitates understanding of the 'how' of strategy change by CMB fund managers and investee SMEs for deliberate realisation of social impact and financial returns in BoP communities. The study builds on integrated or unified hybrid strategy (Battilana et al., 2012; Seelos and Mair, 2005), Peredo and McLean (2006) complementary strategy and embedded social purpose strategy (Austin et al, 2006).

These two theoretical illustrations presented earlier in figure 5.1 and 6.1 of sections 5.2 and 6.2 respectively are presented through a unified theory in line with theory building and elaboration (Eisenhardt and Grabner, 2007; Eisenhardt, 1989). By drawing on different sources of literature stated in section 7.1 to develop an integrated theoretical framework, an elaborated theory presented in section 5.1 and 5.2, the study further presents a unified theoretical contribution (Figure 7.1). I have created and illustrated how figure 7.1 can be adapted to specific case studies, in the case of bank-based and capital market-based funds through the elaborations in figure 5.1 and 6.1. Figure 7.1 critically explains the influences/role of BB and CMB fund managers on investee SMEs within the local context through governance, strategy change and impacts. Having applied the integrative theoretical framework drawing on financial intermediation (Boot, 2000) and impact investing (Hotchstadter and Scheck, 2015; Ormiston et al., 2015; Rajan et al, 2014), social entrepreneurship


toward theory building, a further refinement through a unified new theory emerged. It further uncovers the influences/role of bank and capital market-based fund managers on categories of SMEs based on ownership/ internal approval, control and board representation or monitoring (Gompers et al., 2016; Vashishtha, 2014; Kaplan and Stromberg, 2009). Besides, strategy change from social entrepreneurship theory (Battilana et al., 2011; Peredo and McLean, 2006; Seelos and Mair, 2005) explains how BB and CMB fund managers ensure that SMEs deliberately realise social impact and financial returns in BoP communities.


Figure 7.1 depicted below illustrate the interaction between impact investors (finance-first and impact first) within the global context and impact investment fund managers (BB and CMB) in the local environment. The global context shapes the funding sources, determine, or define societal problems which require urgent solutions and affect impact investor objectives (Ormiston et al.; Wood et al., 2013). The global context within which impact investment capital flows into the country/local environment shapes the institutional context and determines the interaction of the financial and enterprise architecture.

Figure 7. 1 Emergent theory of the influences of BB and CMB funds on SMEs in BoP communities



Source: Authors theorizing of the role of BB and CMB based on cross-case analysis of two cases studies communities.

Further, the symbol  shows the interaction between impact investors and impact investment fund managers (BB and CMB) and the concepts of governance and strategy change. It suggests that based on impact investment strategy presented to impact investors which address strategy mandate-fit, investment philosophy and ESG considerations, a governance mechanism is agreed between the parties. The governance mechanism and strategy change agreed at the investor-fund manager level within the global context manifest same within the local institutional context. Thus, based on the influences of impact investors on BB and CMB fund managers at the fund level within the global context, BB and CMB fund managers apply similar governance and strategy change influences on investee SMEs in the country environment for social impact and financial returns. In applying these mechanisms, the institutional context (Welter, 2011; Scott, 2001) comprising formal regulations, laws, standards and codes, policymaking, regulatory and promoting institutions shape the financial and enterprises architecture. These variables within the institutional context shape the financial and enterprise architecture representing the research setting. The context and setting in turn determine, affect, and shape the entry and post-entry choices of bank and capital market-based fund managers, and categories of SMEs in pursuit of impact investor objectives.

The four findings emerging from this study interact to realise the ultimate investor objectives of impacts. The symbol  shows that it is the integration of these findings within the institutional context which would create the expected impacts of social and financial returns in BoP communities. An examination of these findings in silos might not yield the intended objectives. An interaction occurs between finance first and impact first investors (Hotchstadter and Scheck, 2015; Ormiston et al., 2015) through governance and strategy change agreed with BB and CMB fund managers for SME categories (Jones and Turner, 2014; Nelson and Levesque, 2007; Autio, 2007). The high growth, missing middle and established SMEs now have access to diverse entrepreneurial financing opportunities (Cumming et al., 2019; Kaplan and Stromberg, 2009) to realise developmental impact and financial returns.

A summary of the theory based on the findings reveal that; the differences of finance first, impact first and hybrid investors based on motivation and objectives on one hand and the distinctiveness between BB and CMB funds based on governance and strategy change determine an impact investor choices of a channel

(BB and CMB) within the local context for effective delivery of financial and social impact expectations. It is instructive to both finance-first, impact first and hybrid investors in making informed decision regarding the most effective intermediary to realise their objectives and their role in governance. BBF that typically align with finance first investors have a governance mechanism which does not permit board representation by an impact investor except where the funding is equity capital and size of amount is also relevant. CMB fund managers allow appointment of nominees of shareholders to the LPAC of the fund usually in a fiduciary capacity of the shareholders. These nuances have implications to impact investors and policy makers. An impact investment strategy that embed social impact and financial returns are executed through strategy change of SME categories drawing on social entrepreneurship theory. Moreover, impact investors approach to development evidence radical change from public-sector approach which relies on aid to private sector-led development through investment and trade for sustainability of the funds and enterprises as agents of social transformation and financial returns.

The interaction between finance first, impact first and hybrid and SME categories acknowledge an awareness among impact investors about categories of SMEs that BB and CMB funds target to realise the expected developmental objectives. Further, SME categories which are distinct presented in sub section 7.2.4 as a major finding based on governance and strategy represent agents of social and financial returns in pursuit of private sector led approach to development. Finally, impact investor distinctiveness has created alternative entrepreneurial financing opportunities showing the interaction between finance-first, impact-first and hybrid investors.

Similarly, SME categories shown in the figure 7.1 that hitherto were financially constrained (Beck and Demirguc-Kunt, 2006; Ayyaagari et al., 2011) have access to a pool of entrepreneurial financing opportunities with the emergence of impact investing (Harrison, et al., 2016). They have access to different providers of entrepreneurial financing including impact funds, PE/VC, commercial banks, and Government funds which best serve their growth and expansion needs ((Cumming et al., 2019; Harrison et al., 2016). In addition, depending on the growth stage of these categories of SMEs, diverse financial instruments that can be tailored to their needs including debt, equity, convertible debt, mezzanine, and grants as enablers for growth.

Impact investment funds (BB and CMB) through the emergence of impact

investing deploy different financial instruments which has created diversified sources of entrepreneurial financing opportunities for SME categories that employ a strategy entailing simultaneous impact and financial returns. Distinctiveness and similarities between impact funds and traditional enterprise financing evidencing growth in entrepreneurial financing in sub section 7.2.5 reflect the link shown in figure 7.1 between the funds and entrepreneurial financing. These findings represented in a unified theory aims at realising social impact and financial returns in BoP communities. Major social impact from the analysis evidence job creation while financial returns include cash flow generated, return on investment and loan repayment.

This emergent theory can be applied in different context especially in developing and emerging countries with similar context specific factors. More importantly, this unified theory emerged from two separate theoretical contributions shown in figure 5.1 and 6.2. So, figure 7.1 should be applied with a background of these previous refined theories. Another context specific factor is the financial architecture of a country. In this context of the study, the financial architecture has four major segments and with four regulatory institutions. Therefore bank-based funds were regulated differently from capital market-based funds. In most developed economies, Commercial banks provide pension fund management, financial intermediation, investment banking and retail banking all under one regulatory body. Applying this theory to such context would be problematic. However, where the context is more bank-based financial system with different lower-tier banking institutions, then the emergent theory will be highly applicable. Other contributions emerging from this framework are presented in subsection 7.6.2.

The emerging theory (Figure 7.1) therefore builds on the impact investing theory of finance and impact first investors (Hotchstadter and Scheck, 2015; Ormiston et al., 2015), fund governance and strategies (Gompers et al., 2016; Rajan et al., 2014; Kaplan and Stromberg, 2009), strategy change theory of social entrepreneurship (Battilana et al., 2012; Peredo and McLean, 2006; Seelos and Mair, 2005), financial intermediation (Vashishtha, 2014; Boot, 2000) and high growth, missing middle and established categories of SMEs (Jones and Turner, 2014; Goedhuys and Sleuwaegen, 2010; Nelson and Levesque, 2007). These literature have examined the concepts integrated in the emerging theory in silos and omitted other dimensions which require investigation to understand and explain the phenomenon of impact investing.

7.3.2 Other contributions to literature

The study also contributes insight that are relevant to several of the research literature that have been drawn on to construct the integrated framework to different sets of literatures in advancing knowledge within the discipline and other disciplines

- **Impact investment:** It fills a recognised gap in this literature regarding the governance of impact investments (Geobey and Harji, 2014, p.275). Governance evidence of ownership, control and board representation advances the impact investing literature in response to the call from Geobey and Harji (2014, p.275) regarding governance of impact investment funds. These governance mechanisms were analysed and presented at the impact investor-fund manager level and fund manager- investee SME levels. Details of findings were discussed in sub-sections 7.3.2 and 7.3.3 respectively. Secondly, Hotchstader and Scheck, (2015) pointed out the need for future research to determine “whether impact investors place limits on the size and ownership structure of investees”. The study further the debate in this literature on the school of thought that place limits on impact investors focusing on unlisted enterprises. Evidence presented from the data analysis reveal that all the high growth, missing middle and established SMEs that bank-based and capital market-based fund managers financed or invested respectively were unlisted enterprises with an integrated, complementary and embedded social impact and financial return strategies. In terms of ownership structure of investees, generally CMB fund managers acquire significant minority interest (up to 49%) in investee SMEs based on the corpus of data analysed and presented. Established SMEs that experienced indebtedness which led to their near collapse were bailed-out through impact investment capital in box 6.1 and 6.2. This advance and fills the research gap about future research on how investee organisations are benefiting from impact investment growth by Ormiston et al., (2015, p.375).
- **Social entrepreneurship:** It provides additional evidence on social entrepreneurship activity in BoP communities. The study represent originality in analysing and presenting evidence of high growth, missing middle and established SMEs conceptualised as for-profit social enterprises based on motivation, access to resources and activities spanning different sectors. Moreover, Seelos and Mair (2005, p.243) findings on Sekem, a profit-oriented business that utilised these profits to support education and

medical centres in Egypt within the social sector depicts business models that integrate social impact and financial returns. Thus, this study further advances with more cases that simultaneously realise these objectives in BoP communities. In further advancing the social entrepreneurship literature, Austin et al., (2006, p.2) suggests that the nature of social problems and format of the organisation which effectively enable mobilisation of resources to solve a social problem is important. In line with this notion, the evidence presented shows high growth and missing middle SMEs as for-profit social enterprises mobilizing impact investment capital to provide solutions in BoP communities for both social impact and financial returns.

Further, these categories of SMEs adopted market-based approaches to solve societal problems in BoP communities while simultaneously realising social impact and in some cases environmental impact alongside financial returns. These evidences fill the gap on suggestions by Chell et al., (2010) on how social enterprises could provide solutions to societal problems while realising the triple bottom line. Lastly, the how of strategy change based on social entrepreneurship literature by investee SMEs that deliberately pursue dual goals uncovered integrated, complementary, embedded, and standalone models of strategy. These findings extend existing debate in the social entrepreneurship literature on how for-profit social enterprises can concurrently satisfy two institutional logics (Battilana et al., 2012; Austin et al, 2006; Peredo and McLean, 2005; Seelos and Mair, 2005).

- **Entrepreneurial Financing:** The characteristic of impact funds versus traditional entrepreneurial financing in recent time based on discussion in this study advances the literature on sources and types of SME finance. Existing entrepreneurial finance literature have observed variety of “finance types and providers” (Cumming et al, 2019, p. 251) and inherently equate impact funds to private equity and venture capital. However, evidence presented in this study extend the debate in the entrepreneurial financing literature. It further adds to two major themes that address the finance-provider organisation and sources of funding representing investors (Cumming et al., 2019; Harrison et al., 2016). The board role in the governance of a portfolio firm (high growth and established SME) improve the literature in this discipline.

7.3.3 Implications for Policy and Practice

The findings from this thesis has implications for impact investors, financial intermediaries (bank and capital market-based fund managers), owner managers of SMEs and policy makers which are discussed in turn. The study first informs impact investors about heterogeneous channels of bank-based and capital market-based intermediaries for deliberate realisation of social impact and financial returns based on governance, strategy, and impacts. Impact investor motivation and objectives of deliberately realising social impact and financial returns require investment in SME categories that can integrate impact variables in their operational and strategic decision making. Engagement with officials of DFIs (e.g. CDC Group, Proparco, OPIC), private commercial banks, sovereign wealth funds, development agencies (e.g., DFID, USAID) within the global impact investment network on how ESG are integrated within the operational strategies of investee SMEs will inform their investment considerations and policies.

Another significant implication is the tensions encountered by bank-based fund managers in the pursuit of impact investment funds from three perspectives; namely financial returns, governance mechanisms deployed and the intentionality of social impact. Based on the evidence presented, bank-based fund managers encounter the difficulty of generating lower returns from impact funds under management due to the social impact expectations of impact investors compared to intermediated funds which generate high interest income. Moreover, in view of little capacity in measuring social impact, BBF managers either consign such duties to NGOs or decline access to impact funds. Finally, most BBF adopt the same governance mechanisms irrespective of funds under management and modality of disbursement. Some encounter tensions in managing impact funds due to the existing organisational structure and geographical spread of the bank resulting in poor monitoring and recovery. To this end, this study informs BBF managers about the type and models of impact funds that they can access based on their existing structure, governance mechanisms and effective ways to overcome social impact measurement challenges. Besides, another implication for BBF is that this study could form a basis for many commercial banks in developing countries to design, embed social impact and financial returns models in their loan appraisal, governance systems to attract impact investor capital for societal transformation.

Further, this study informs impact investment policy framework. With my experience within the banking industry and opportunity as graduate research assistant at the GIMPA centre for impact investing (GCII), initial stakeholder efforts led by the VCTF and GCII in promoting impact investing appears to have declined. Absence of a regulatory policy framework on impact investing emerged during my pilot (2017) and PhD fieldwork (2018). This study therefore informs SEC policy on regulatory institutional knowledge relating to the types of impact funds in the country and nature of governance deployed by impact funds in Ghana. This is due to the void on regulation on impact investment funds that emerged during the PhD fieldwork from Ghana's Securities and Exchange Commission (SEC) amidst current effort at gathering data to develop regulations for private equity and impact investment based on SEC Act 2016 (Act 929), (PhD fieldwork, 2018). Moreover, the study will catalyse the effort by the VCTF to develop an impact investment policy document for Ghana.

Another key policy area of the study is opportunity to inform stakeholders in the Pension industry on capital allocation to SME categories in this study through engagement with the National Pension's Regulatory Authority (NPRA), SEC, MOTI, and pension fund managers. It emerged during my fieldwork that pension fund managers (Tier two) are allocating capital to Government securities, fixed certificates of deposits at Commercial banks and some stocks on the Ghana Stock Exchange. More risk-averse investment which has been typical of most financial institutions including commercial banks over the past three decades. Further, pension fund managers of Tier two schemes only invest in SMEs that are listed on the Ghana Alternative Exchange (GAX) which is a second tier listing of companies. The problem is that pension fund managers with huge assets under management are not investing in categories of SMEs identified and at the same time unemployment, poverty and other intractable societal problems deteriorate in Ghana.

The study also informs stakeholders in charge of policy, regulations, and financing on the nature of impact fund activities, funding sources, operational processes, and fund economics for regulatory purposes and why more of these funds are needed in the country. The Venture Capital Trust Fund (VCTF) efforts at promoting impact investing in conjunction with GCII from 2013-2015 is quite commendable. Stakeholder engagement and conferences were organised to promote the sector including policy briefs developed by GCII. Database of

intermediaries within the impact investment ecosystem were developed and dialogue with political stakeholders held as part of advocacy and engagement. However, more work needs to be done through multi-stakeholder engagement involving commercial banks, capital market fund managers, regulators (e.g. SEC, BoG, NPRA, NIC), VCTF and research centres such as GCII. The study thus is pivotal to knowledge dissemination which further enhances entrepreneurial financing opportunities to SMEs.

SME categories of high growth, missing middle and established owner managers represent key stakeholders to be informed by this study. The Association of Ghana Industry (AGI), the Ghana Chamber of Commerce, Ghana Export Promotion Council have SME members who need to be informed about how to attract impact investment capital for growth and expansion. Thus, information and knowledge dissemination about capital from impact investment funds by owner managers of SMEs who integrate social impact and financial returns in their strategic and operational objectives would to some extent alleviate their financing constraints. Other SMEs that are now emerging requiring capacity development and support through technical assistance and grants will serve as alternative ventures for dissemination of this research.

Several other policy contributions within the research setting of Ghana can be observed. First legislative void on social enterprises make it difficult for effective targeting and financing of enterprises that seek to realise social impact and financial returns goal simultaneously. A tax incentive policy to encourage high growth and established SMEs that pursue dual goals in BoP communities for employment, poverty reduction, health and education support would be helpful in alleviating the myriad of intractable problems confronting government. Furthermore, the study guides policy formulation that encourage CMB fund managers through technical assistance facilities to support established and emerging business incubators in the country to promote future pipeline of deals to reduce unemployment situation in the country. Additionally, regulatory policy changes to encourage impact investor capital for either converting some established NBFIs into development banks or set up new to support high growth, missing middle and established SMEs with long-term funding and post-financing technical support. Incentives for bank-based capital market-based funds that commit a certain threshold of capital to high impact and relatively below market returns social sectors such as health, education, water, sanitation, and agri-business instead of reliance on foreign direct investments.

Indigenization drive by Ghana Free Zones incentives to promote specific priority sectors could be facilitated by impact investment funds.

Finally, this study has potential implications for developing countries in Africa, Asia and to some extent Latin America adopting private sector-led approach to development and similar context-specific factors. The impact investment models emerging either bank or capital market-based structures are converging, and actors are concurrently focusing different markets and regions for social impact and financial returns. The main opportunity is for policymakers, bankers, fund managers, entrepreneurs, and institutional stakeholders to collaborate and develop an investment framework to attract impact investment capital for growth and development. In addition, attracting impact investment capital should be aligned to the sustainable development goals to mitigate any trade-off between social impact and financial returns.

In summary, the study has two main contribution to theory, five major implications for policy and practice and other implication for development in Ghana and Africa with similar context. Dissemination of these findings and policy implications of the study to policy makers would transition Ghana from a middle-income country to an emerging economy while facilitating the development of enterprises as agents of social transformation and economic growth in Africa. The next section present study limitations and future directions.

7.4 Limitations and future directions for the study

The study makes significant contribution to theory and practise by adopting a qualitative case study design research to examine the phenomenon of impact investing. Three main limitations to this study can be viewed from research design and methodology, theoretical shortcomings, and resource constraints. A case study research design is criticised for lack of generalisability of cases which tend to affect the findings. Section 4.3 and 4.4 respectively addressed how the research design was effectively employed to promote reliability and external validity of findings. Specifically, multiple data sources including interviews, rapid participant observations and documentary evidence where used to promote methodological triangulation. Although some CMB participants were reluctant to provide “confidential reports and documents” such as sample business plan for analysis, informal discussions from different fund managers evidenced unreliability of

submitted business plans by SMEs. It rather emerged that fund managers through due diligence uncover realistic estimates of revenues and cash flows complemented with records from bank statements. Further documents and information from DFIs and global industry associations (e.g. GIIN, EVPA) were secured to fill gaps in the local context.

Some quantitative bias authors might raise issues about small sample size in extending the findings to different context. A purposive and theoretical sampling approach employed due to unique context of the case (Miles and Huberman, 1994) and cases extending relationship for theory building (Eisenhardt and Graebner, 2007) which relies on small sample size. Further, to curb this challenge from statistics bias scholars, the study elaborated in detail context- specific factors within the institutional context which has similarities with many developing countries and emerging economies. However, possible consideration adoption of a method with large sample size through quantitative research design will be consigned for further research.

A possible theoretical limitation can be viewed from the issue of impacts or outcomes which are better captured over a period. The study acknowledges that though evidence of impacts were revealed, a longitudinal study has a potential of revealing concrete details. Jobs created and sustained emerged as the key metric measured as social impact shown in reports by fund managers because of the ease of quantification. This explains why some scholars from the impact investing discipline explored issues of impact measurement (e.g. Harji and Jackson, 2018; Reeder et al, 2015; Jackson, 2013) considering different standards, frameworks, and measures. Also, budgetary resources in terms of time and expenses constitute a short coming of the study because the study was conducted within three geographical regions in Ghana. A comparative study of three countries such as Kenya, Ghana and South Africa representing key destination of impact investments would have evidenced unique perspectives.

Several research issues were unaddressed which constitute potential future directions for this study. First, a study that investigates impact investor effects using large sample of dataset from different asset owners including DFIs, foundations, Investment banks, and private investors in multiple countries could be insightful. Second, an application of the theoretical framework in other context in Africa, Asia and Latin America would provide relevant perspectives for theory elaboration. Third

area of future research worth considering is impact investor effects on non-profit social enterprises in multiple countries in Africa aimed at financial and social transformation. One of the major findings of this study relate to impact investment as alternative to traditional enterprise financing. A survey research design of different categories of SMEs in Ghana based on alternative enterprise financing would be critical for financial development in Ghana and other developing countries. Such study will be essential for policy making in addressing the perennial constraints of enterprise financing in Africa and other emerging economies.

7.5 Conclusion

The overarching objective has been to critically investigate the influences of impact investment funds on investee SMEs to realise social impact and financial returns in BoP communities through governance, strategy change and impacts. In many ways, realising this objective has enabled me to fulfil the four major motivation for conducting a PhD study. First, the thesis has uncovered some of the explanations about how the different governance arrangements for impact investment funds were influencing SMEs in BoP communities that I could not explain back in 2016 as part of my involvement in the GIMPA Centre for impact investing in Ghana. A rhetorical question was whether and how impact investment funds could help address these societal problems and if so which type of fund would prove most effective? A response to this question, based on the findings from this thesis, is that a development-oriented bank that integrate the governance and strategies of bank and capital market-based fund managers is required. Also, I intended to uncover the similarities and differences between impact funds and traditional enterprise financing to determine alternative funding to SMEs. My third motivation was to find-out how these emerging impact investment models might help to address the upsurge in intractable societal problems, such as unemployment, education and health infrastructure. Finally, to understand and explain the effectiveness of impact investment flows to developing countries and specifically Ghana in changing the enterprise financing landscape.

Drawing on diverse literature, the study developed an integrated theoretical framework linked with the concept of governance, strategy change and impacts and applied within the research setting of Ghana. Analysis and findings were presented in respective chapters. This study made two major theoretical contribution with

policy implications for impact investors, policy makers, fund intermediaries and owner managers of SMEs. Suffice to end that in order to overcome the paradox of abundant resources and intractable societal problems in Ghana and many other developing countries, impact investments model is an avenue for social and economic transformation. The rousing call to action is for the integration of the best of breeds in channels of impact investments to promote developmental objectives through sustainable job creation. Also, further academic research and collaboration with institutions, industries, and new entry organisations to ensure regulatory and legal reforms for the advancement of the impact investing field.

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Appendices

Appendix 4a Bank-based funds

Appendix 4a.1 Participant information sheet

Participant information sheet

Title: Examining the governance of impact fund-SME investee relationships for social impact and financial returns in Ghana.



This document is an invite to participate in a research study on the above topic. The information sheet provides guidance on the purpose, background, benefits of participation and additional details of the study. Kindly spend some time to read the details below segmented into two parts. You are permitted to take time in making an informed decision of whether to participate or not.

- Section One- focuses on purpose of the study and matters regarding participation.
- Section Two- provides additional information relating to the study and input required.

Section One

My name is Richmond O. Lamptey, a second year PhD student at the Open University Business School (OUBS), Michael Young Building, Milton Keynes, MK7 6AA. The PhD study is to seek local input to empirically apply a theoretical framework in exploring how bank based and capital market based fund managers adopt governance mechanisms and processes to influence SME investees for realisation of social impact and financial returns in Ghana. As you might be aware, impact investors and fund managers are claiming to find solutions to intractable societal problems through direct and indirect investments into SMEs for social impact and financial returns. Ghana represents a major recipient of funds established to invest in enterprises that pursue both social impact and financial returns. These funds are channeled through bank based and capital market based financial institutions for SMEs. My overarching research interest seeks to uncover how the governance of fund manager-SME investee relationship influences realisation of social impact and financial returns in Ghana. To this end, I would like to interview fund managers and SME owner managers involved in this emerging sector.

The selection of your organization emerged from published research documents and profile of participants developed through references from existing stakeholders in the sector based on a recent pilot study in Ghana. Participation is optional. If you agree to participate, you keep this information sheet and sign a consent form. A copy of the consent form will be kept by you and another copy for my records. If you agree on participating in this study, an interview appointment date and time would be scheduled to take place in your office tentatively at 11:00am - 12:15pm. Apart from the signed consent form, no question out of the ordinary would be asked. Besides, you have the right to decline certain questions. Withdrawal from participation can be communicated a day prior to the scheduled interview date through a telephone call or email to the principal investigator. Also during or after the interview, you can freely withdraw and any recorded data will be destroyed, up until the point at which the data becomes anonymised and aggregated for analysis and dissemination. In line with the culture of reciprocity and trust, your organisation would benefit from sharing of the research findings based on preliminary analysis of data during the fieldwork as well as final report. In terms of disadvantages in participating in the project, there is none to the best of my knowledge.

Some participants are rather hesitant when audio recording their responses but overcome it after some minutes into the interview.

Section Two

An audio recorder will be used to record the interview in addition to some selective notes taking for clarification purposes. However, you reserve the right to decline to be audio recorded for an alternative arrangement such as note taking of the interview. In order to respect confidentiality, audio recording and notes will be anonymised during transcription, analysis and writing up immediately after the interview. Unique codes for participants and the organisation will be developed and assigned prior to the interview. These codes will be documented and referenced during transcription within 24 hours of the interview. Only the unique codes will be used within the research. The data collected will be transcribed, analysed and discussed with participants for feedback for clarification on themes prior to departure from the field. On completion of my PhD, any personal data (i.e. Name, age and qualifications) and notes recorded beyond this will be destroyed within 12 months of that decision being made. The Open University's guidelines suggest that pertinent data (eg. Interview transcripts and analysed data) be kept for a minimum of 10 years after which it will be destroyed. In case of complaints, I will respectfully provide satisfactory answers to all issues concerning this project. However if the answers do not meet your expectation, you can communicate with my supervisors, Dr. Michael Ngoasong and Prof. Richard Blundel.

The findings from this PhD research will be published at conferences around the world and in academic journals. Also, I will submit a report to the Government Ghana to inform policymakers concerning the research. If interested you will be invited to attend a presentation at the British Council (subject to agreement) in Accra to share report findings. In terms of funding, the Open University is funding the entire study as a full time PhD student at the Open University Business School. The OUBS is one of the recognized research institutions and accredited member of the Association of Business Schools in the UK. There will be no payment for participation in this research project. By way of data security, audio recordings will be stored and password protected on The Open University data repository (OneDrive). Interview notes taken from the field will be stored in locked cabinet at the OUBS. Finally, the Open University's Human Ethics Review Committee (HREC) has given a favourable ethical opinion for the conduct of this PhD study in Ghana.

Thank you for reading sections one and two of this information sheet. I will contact you to discuss a convenient date and time for the interview if you accept participation in this study.

Milton Keynes, November 14th, 2017.

Appendix 4a.2 Consent Form

Title of the study: Examining the governance of impact fund-SME investee relationships for social impact and financial returns in Ghana.

Principal investigator: Richmond O. Lamptey



CONSENT FORM

Organisation/Department:

- ✦ I have read the information sheet dated 14th November, 2017 concerning this research project. I have also sought clarifications with respect to the nature and purpose of the project.
- ✦ I understand that participation is voluntary and without coercion to take part. You reserve the right to withdraw from the interview. Withdrawal from participation can be communicated a day prior to the scheduled interview date through a telephone call or email to the principal investigator. Also during or after the interview, you can freely withdraw and any recorded data will be destroyed, up until the point at which the data becomes anonymised and aggregated for analysis and dissemination.
- ✦ I understand that the interview will be audio recorded.
- ✦ I understand that research findings will be published as PhD thesis, in academic journals and conferences. Any direct quotations will be anonymised in such publications. I also understand that any personal details will be confidentially locked in cabinet at the Open University Business School or password protected on the OU data repository.
- ✦ I also understand that Richmond O. Lamptey's supervisors and PhD examiners will have access to only the anonymised audio recording and transcripts confidentially. I also understand that administrative and research staff that come into contact with the data will be guided by research data confidentiality policies of the Open University.
- ✦ Original notes and recordings will be destroyed 12 months after successful award of the PhD (award anticipated to be October 2019), unless archived for future use (consent is asked for in relation to this possibility on all consent forms).
- ✦ I agree to participate in the study.

Name of Participant.....

Signature:..... Date:.....

Name of Principal Investigator:.....

Signature:..... Date:.....

Appendix 4a.3 Interview Guide

INTERVIEW GUIDE FOR PhD PROJECT

Title: Examining the governance of impact fund-SME investee relationships for social impact and financial returns in Ghana.



Bank based funds

- Tell me briefly about your bank?
- Can you briefly provide information on types of impact funds (sustainable funds) under management from DFI, donor agencies (multilateral or bilateral) or Government?
- Are these funds for specific purposes? Probing questions will seek to identify funds under management, date created, promoters, fund life, deal sizes, type of capital deployed, investment period etc.
- How does your bank source specific funds from Government, DFI's, and Multilateral organisations? Probing questions include perception of influence i.e. power asymmetries?
- Describe the governance mechanism between your funders and the bank? Does the fund appoint board representatives to the investee SME board?
- How would you describe the differences in such funds and other sources of capital for financial intermediation?
- Can you explain how the bank govern the relationship with SME investees with specific focus on the fund? Before and after financing mechanisms?
- How would you describe the nature of relationship between the management of the fund and investee SMEs from governance perspective? Is it contractual, partnership, transactional, etc.? Why?
- Does the governance approach differ depending on the financial instrument deployed? I.e. debt, equity or convertible debt?
- What is the primary objective in managing these funds? Loan repayment (principal+interest), social impact or both? Which takes precedence
- What process or mechanisms does the bank deploy to ensure SME investees realise social impact and financial returns?
- Can you tell me about the pre-investment, financing stage and post investment control processes of fund-investee SME relationships?
- Can you describe the nature of post investment monitoring? Does it differ depending on whether investment comprised debt, equity or convertible debt?
- In what way does the bank control processes of and how investee SMEs operate?
- Do you expect investee SMEs to meet financial returns first with some level of social impact or social impact first before financial returns? How?
- How does the bank identify and invest in SMEs providing solutions to societal problems?
- How would you describe your role as bank based fund manager in supporting SMEs representing agents in providing solutions to societal problems?
- In what way does your bank influence investee SMEs to realise social impact and financial returns simultaneously?
- What has changed over the past five years regarding approach of financing SMEs and type of SMEs targeted?
- Can you describe your (fund) previous processes and approaches before upsurge of impact investment funds i.e. investment focus, sectors, geography, financial return expectations, expected social impact, guiding rationale for investing in enterprises?
- Briefly describe your current approach given the impact investment flows to your bank?
- How has the practises and process of supporting SMEs of your bank changed over the past ten years?
- How do you view the role of the fund in providing solutions to societal problems i.e. Principals, agents etc?

Appendix 4b CMB Fund Managers: information sheet, consent form interview guide

Appendix 4b.1 Participant information sheet

Participant information sheet

Title: Examining the governance of impact fund-SME investee relationships for social impact and financial returns in Ghana.



This document is an invite to participate in a research study on the above topic. The information sheet provides guidance on the purpose, background, benefits of participation and additional details of the study. Kindly spend some time to read the details below segmented into two parts. You are permitted to take time in making an informed decision of whether to participate or not.

- Section One- focuses on purpose of the study and matters regarding participation.
- Section Two- provides additional information relating to the study and input required.

Section One

My name is Richmond O. Lamptey, a second year PhD student at the Open University Business School (OUBS), Michael Young Building, Milton Keynes, MK7 6AA. The PhD study is to seek local input to empirically apply a theoretical framework in exploring how bank based and capital market based fund managers adopt governance mechanisms and processes to influence SME investees for realisation of social impact and financial returns in Ghana. As you might be aware, impact investors and fund managers are claiming to find solutions to intractable societal problems through direct and indirect investments into SMEs for social impact and financial returns. Ghana represents a major recipient of funds established to invest in enterprises that pursue both social impact and financial returns. These funds are channeled through bank based and capital market based financial institutions for SMEs. My overarching research interest seeks to uncover how the governance of fund manager-SME investee relationship influences realisation of social impact and financial returns in Ghana. To this end, I would like to interview fund managers and SME owner managers involved in this emerging sector.

The selection of your organization emerged from published research documents and profile of participants developed through references from existing stakeholders in the sector based on a recent pilot study in Ghana. Participation is optional. If you agree to participate, you keep this information sheet and sign a consent form. A copy of the consent form will be kept by you and another copy for my records. If you agree on participating in this study, an interview appointment date and time would be scheduled to take place in your office tentatively at 11:00am - 12:15pm. Apart from the signed consent form, no question out of the ordinary would be asked. Besides, you have the right to decline certain questions. Withdrawal from participation can be communicated a day prior to the scheduled interview date through a telephone call or email to the principal investigator. Also during or after the interview, you can freely withdraw and any recorded data will be destroyed, up until the point at which the data becomes anonymised and aggregated for analysis and dissemination. In line with the culture of reciprocity and trust, your organisation would benefit from sharing of the research findings based on preliminary analysis of data during the fieldwork as well as final report. In terms of disadvantages in participating in the project, there is none to the best of my knowledge.

Some participants are rather hesitant when audio recording their responses but overcome it after some minutes into the interview.

Section Two

An audio recorder will be used to record the interview in addition to some selective notes taking for clarification purposes. However, you reserve the right to decline to be audio recorded for an alternative arrangement such as note taking of the interview. In order to respect confidentiality, audio recording and notes will be anonymised during transcription, analysis and writing up immediately after the interview. Unique codes for participants and the organisation will be developed and assigned prior to the interview. These codes will be documented and referenced during transcription within 24 hours of the interview. Only the unique codes will be used within the research. The data collected will be transcribed, analysed and discussed with participants for feedback for clarification on themes prior to departure from the field. On completion of my PhD, any personal data (i.e. Name, age and qualifications) and notes recorded beyond this will be destroyed within 12 months of that decision being made. The Open University's guidelines suggest that pertinent data (eg. Interview transcripts and analysed data) be kept for a minimum of 10 years after which it will be destroyed. In case of complaints, I will respectfully provide satisfactory answers to all issues concerning this project. However if the answers do not meet your expectation, you can communicate with my supervisors, Dr. Michael Ngoasong and Prof. Richard Blundel.

The findings from this PhD research will be published at conferences around the world and in academic journals. Also, I will submit a report to the Government Ghana to inform policymakers concerning the research. If interested you will be invited to attend a presentation at the British Council (subject to agreement) in Accra to share report findings. In terms of funding, the Open University is funding the entire study as a full time PhD student at the Open University Business School. The OUBS is one of the recognized research institutions and accredited member of the Association of Business Schools in the UK. There will be no payment for participation in this research project. By way of data security, audio recordings will be stored and password protected on The Open University data repository (OneDrive). Interview notes taken from the field will be stored in locked cabinet at the OUBS. Finally, the Open University's Human Ethics Review Committee (HREC) has given a favourable ethical opinion for the conduct of this PhD study in Ghana.

Thank you for reading sections one and two of this information sheet. I will contact you to discuss a convenient date and time for the interview if you accept participation in this study.

Milton Keynes, November 14th, 2017.

Appendix 4b.2 Consent Form

Title of the study: Examining the governance of impact fund-SME investee relationships for social impact and financial returns in Ghana.

Principal investigator: Richmond O. Lamptey



CONSENT FORM

Organisation/Department:

- ✦ I have read the information sheet dated 14th November, 2017 concerning this research project. I have also sought clarifications with respect to the nature and purpose of the project.
- ✦ I understand that participation is voluntary and without coercion to take part. You reserve the right to withdraw from the interview. Withdrawal from participation can be communicated a day prior to the scheduled interview date through a telephone call or email to the principal investigator. Also during or after the interview, you can freely withdraw and any recorded data will be destroyed, up until the point at which the data becomes anonymised and aggregated for analysis and dissemination.
- ✦ I understand that the interview will be audio recorded.
- ✦ I understand that research findings will be published as PhD thesis, in academic journals and conferences. Any direct quotations will be anonymised in such publications. I also understand that any personal details will be confidentially locked in cabinet at the Open University Business School or password protected on the OU data repository.
- ✦ I also understand that Richmond O. Lamptey's supervisors and PhD examiners will have access to only the anonymised audio recording and transcripts confidentially. I also understand that administrative and research staff that come into contact with the data will be guided by research data confidentiality policies of the Open University.
- ✦ Original notes and recordings will be destroyed 12 months after successful award of the PhD (award anticipated to be October 2019), unless archived for future use (consent is asked for in relation to this possibility on all consent forms).
- ✦ I agree to participate in the study.

Name of Participant.....

Signature:..... Date:.....

Name of Principal Investigator:.....

Signature:..... Date:.....

INTERVIEW GUIDE FOR PhD PROJECT

Title: Examining the governance of impact fund-SME investee relationships for social impact and financial returns in Ghana.



Capital market based funds

- Please tell me about the history of your organisation? Participants will be probed to identify date created, promoters, fund life, deal sizes, type of capital deployed, investment period etc.
- How would you describe the nature of relationship between the fund and investee SMEs from governance perspective? Is it contractual, partnership, transactional, etc.? Why?
- Does your fund hold any equity interest in investee SMEs? If yes, why and how much?
- Describe the governance mechanism between your investors and the organisation? Using GRF, SGB or IPDEVII to probe further on how the investors influence the fund management company for realising objectives? Strategy change and alignment perused? Does the fund appoint board representatives to the investee SME board?
- In what way does the fund control processes and approach of investee SMEs?
- Can you tell me about pre-investment, financing stage and post investment control processes of fund-investee SME relationships?
- Can you describe the nature of post investment monitoring? Does it differ depending on whether investment comprised debt, equity or convertible debt?
- How would you describe your fund? Finance first or impact first? What are your returns expectations from investee SMEs regarding financial returns and social impact?
- Do you expect investee SMEs to meet financial returns first with some level of social impact or social impact first before financial returns?
- What governance mechanisms have you established to influence SME investees for social impact and financial returns?
- Can you tell me about key financing covenants within investment agreement between the fund and SME investees?
- Does the fund use particular terms and conditions to influence relationship with investee SMEs?
- Does the fund amend the terms of investment agreements in line with the expectations of funding sources? If yes, why and why not?
- How does the fund define her investment approach? Probing questions will address fund uniqueness from other competitors, type and selection of SME investees, sectoral focus, portfolio of investees, geography and demography of investees.
- Can you describe your previous approach before impact investments i.e. investment focus, sectors, geography, financial return expectations, expected social impact, guiding rationale for investing in enterprises?
- Briefly describe your current approach given the impact investment flows to your organisation?
- How has the practises of your organisation change and why?
- Where do you situate your organisation in terms of impact investor typology i.e. finance first vs impact first, bank based vs capital market based, sources of investment funds?
- How do you view the role of the fund in providing solutions to societal problems i.e. Principals, agents?
- How do you ensure that investee SMEs realise social impact and financial returns simultaneously? Probing points include assessment, measurement, monitoring, evaluation,

Appendix 4c SMEs: Consent form and interview guide

Appendix 4c.1 Consent Form

Title of the study: Examining the governance of impact fund-SME investee relationships for social impact and financial returns in Ghana.



Principal investigator: Richmond O. Lamptey

CONSENT FORM

Organisation/Department:

- ✦ I have read the information sheet dated 14th November, 2017 concerning this research project. I have also sought clarifications with respect to the nature and purpose of the project.
- ✦ I understand that participation is voluntary and without coercion to take part. You reserve the right to withdraw from the interview. Withdrawal from participation can be communicated a day prior to the scheduled interview date through a telephone call or email to the principal investigator. Also during or after the interview, you can freely withdraw and any recorded data will be destroyed, up until the point at which the data becomes anonymised and aggregated for analysis and dissemination.
- ✦ I understand that the interview will be audio recorded.
- ✦ I understand that research findings will be published as PhD thesis, in academic journals and conferences. Any direct quotations will be anonymised in such publications. I also understand that any personal details will be confidentially locked in cabinet at the Open University Business School or password protected on the OU data repository.
- ✦ I also understand that Richmond O. Lamptey's supervisors and PhD examiners will have access to only the anonymised audio recording and transcripts confidentially. I also understand that administrative and research staff that come into contact with the data will be guided by research data confidentiality policies of the Open University.
- ✦ Original notes and recordings will be destroyed 12 months after successful award of the PhD (award anticipated to be October 2019), unless archived for future use (consent is asked for in relation to this possibility on all consent forms).
- ✦ I agree to participate in the study.

Name of Participant.....

Signature:..... Date:.....

Name of Principal Investigator:.....

Signature:..... Date:.....

INTERVIEW GUIDE FOR PhD PROJECT

Title: Examining the governance of impact fund-SME investee relationships for social impact and financial returns in Ghana.



SME investees

- Can you tell me about the history of your enterprise? Probing questions to be addressed include date of establishment, nature of business, objectives of the enterprise, business location, shareholders etc.
- Briefly provide me with a background about yourself as the CEO or Owner Manager? Age, educational background, experience, qualification?
- Which sector and geography would you situate this business or enterprise? Service, agribusiness, manufacturing, finance, commerce etc.? Location? Ashanti, Greater Accra?
- Can you describe the range of funding sources for your enterprise? Follow up questions comprise reasons for sourcing funding from each source, how applications were made (funding conditions), investment time, amount received, and repayment period?
- How would you describe the objectives of the enterprise? To make money, create impact or both?
- Do you have an established board of directors? Probing questions include board size, expertise, representatives, role of the board, frequency of meeting, independent members etc.? Are there representatives of funders on the enterprise board?
- In what ways do funders control the strategic activities of the enterprise towards key objectives?
- Describe the governance mechanism between your enterprise and funding institutions?
- What is the current ownership structure of the enterprise?
- Briefly describe how funders relate to your enterprise post investment?
- How does the enterprise realise social impact? Considering the societal problems confronting this country i.e. unemployment, poor health, low access to education, inadequate water, malnutrition, housing etc.
- In what ways do funders influence your enterprise for realisation of social impact and financial returns? Would you describe the enterprise as agent of development?
- Can you tell me about what new process, systems, and practices you are implementing to facilitate growth, employment, new product lines, training of employees, production/service improvements markets or customer segments? Probing questions comprise income group (high, middle or low); geographies (rural, urban, semi urban, regional, district); for generating financial returns?
- Briefly describe how your venture is expanding and scaling scale through approaches including products, pricing, promotion, distribution, people, place, physical appearance?. Probe suppliers, partners and business locations? Why is the enterprise located in certain geographical areas?
- Can you describe the current approaches for meeting customer needs and social impact?
- How has the process and practices of the enterprise change since obtaining capital from Impact investment fund? Probing questions include customer segments, distribution or sales network, size of business, geographical location, suppliers and their location
- How has the practices of your enterprise change and why?

Participant information sheet

Title: Examining the governance of impact fund-SME investee relationships for social impact and financial returns in Ghana.



This document is an invite to participate in a research study on the above topic. The information sheet provides guidance on the purpose, background, benefits of participation and additional details of the study.

- Section One- focuses on purpose of the study and matters regarding participation.
- Section Two- provides additional information relating to the study and input required.

Section One

What is the study about?

My name is Richmond O. Lamptey, a second year PhD student at the Open University Business School (OUBS), Michael Young Building, Milton Keynes, MK7 6AA. My overarching research interest seeks to uncover how impact investors at the global level through governance mechanisms and strategic processes influence fund managers in emerging and developing economies to invest in SMEs for realisation of social impact and financial returns specifically in Ghana.

Why have you been chosen?

Returning from four months fieldwork in Ghana, where I interviewed investment managers of different funds and departmental heads of Banks, the name of your institution emerged.

Do I have to take part?

Participation is optional. If you agree to participate, you keep this information sheet detailing consent. An email exchange of acceptance to participate suffices as consent.

What are the advantages of taking part?

Immediately, an opportunity to contribute, inform, assist and shape better research by providing global perspective in your field of work.

Any withdrawal processes?

Withdrawal from participation can be communicated a day prior to the scheduled interview date through a telephone call or email to the principal investigator. Also, during or after the interview, you can freely withdraw, and any recorded data will be destroyed, up until the point at which the data becomes anonymised and aggregated for analysis and dissemination.

Section Two

How would you record the interview?

An audio recorder will be used to record the interview in addition to some selective notes taking for clarification purposes.

What if I don't want to be audio recorded?

An alternative arrangement such as note taking of the interview.

Alternatives to guarantee confidentiality?

To respect confidentiality, audio recording and notes will be anonymised during transcription, analysis and writing up immediately after the interview. Unique codes for participants and the organisation will be developed and assigned prior to the interview.

How to address issues of complaint?

In case of complaints, I will respectfully provide satisfactory answers to all issues concerning this project. However, if the answers do not meet your expectation, you can communicate with my supervisors, Dr. Michael Ngoasong (michael.ngoasong@open.ac.uk) and Prof. Richard Blundel.

What will happen to the research findings?

The findings from this PhD research will be published at conferences around the world and in academic journals. Also, I will submit a report to the Government Ghana to inform policymakers concerning the research.

Who is organizing and paying for the study

In terms of funding, the Open University is funding the entire study as a full time PhD student at the Open University Business School. The OUBS is one of the recognized research institutions and accredited member of the Association of Business Schools in the UK. There will be no payment for participation in this research project.

How could data security be guaranteed?

By way of data security, audio recordings will be stored, and password protected on The Open University data repository (OneDrive). Interview notes taken (if any) will be stored in locked cabinet at the OUBS.

Who has reviewed the study?

The Open University's Human Ethics Review Committee (HREC) has given a favourable ethical opinion for the conduct of this PhD study reference HREC/2686/Lamprey dated 23/11/2017.

CONSENT FORM

- ✚ I have read the information sheet dated 25th May 2018 concerning this research project. I have also sought clarifications with respect to the nature and purpose of the project.
- ✚ I understand that the interview will be audio recorded and the research findings will be published as PhD thesis, in academic journals and conferences.
- ✚ Any direct quotations will be anonymised in such publications.
- ✚ Email exchanges on acceptance to participate constitute consent.

Thank you for reading sections one and two of this information sheet.

Milton Keynes, May 25th, 2018.

Appendix 4d.2 Interview questions

PhD Study: Impact Investing

DFI Interview Questions



Background

- Can you provide me a brief background about yourself and role within your institution i.e. Educational background, previous role, number of years in the institution, key responsibilities?
- What are the key investment considerations for investing in a fund domiciled in Africa? Probe the role of track record, new fund management team without track record collectively?
- Briefly elaborate on your investment criteria and processes when considering an investment proposition from a fund management company? Can you elaborate through an illustration i.e. Bank and P/E firm?

Governance

- Kindly describe the governance mechanism between your institution and invested funds towards realisation of social impact and financial returns
- On a continuum where will you position the nature of governance of investor-fund manager relationship i.e. contractual, partnership, transactional, stewardship?
- Do you appoint board representatives to the fund management board and what is the role of this representative? Why?
- How do you ensure that the fund management company are accountable to your institution in the discharge of their mandate?
- How do you influence the fund management team to realise specific objectives?
- What role does the shareholders agreement play as a governance mechanism for the fund managers to pursue strategies and objectives aligned to that of the investor?
- How would you respond to the argument that to influence fund managers?

Strategy Change

- What is the role of ESG in your investment consideration? In what ways do you consider these factors in evaluating investments from fund managers in Africa?
- In what way do you influence fund management companies to align their strategies to your institutional strategy
- Is there any policy change over the past decade i.e. grant, investment to developing countries? ODA vrs impact funds

Finance and Social impact

- As development finance investor, how would you describe your institution in terms of finance first, impact first or hybrid? Why?
- What are your return expectations from fund managers? What about growth expectations?
- What are your social impact expectations as a development finance investor?
- How would you describe the nature of reporting requirements?
- What are the priority sectors that you expect funds to consider for social impact?

INTERVIEW GUIDE FOR PhD PROJECT

Title: Examining the governance of impact fund-SME investee relationships for social impact and financial returns in Ghana.



Institutions

- Can you tell me about the history of your organisation? Probing questions include mandate of the institution, nature of activities, policies developed and role in SME development.
- Describe the role of your institution in terms of policies relating to SMEs, financing of SMEs, investment in SMEs, social impact?
- How would you describe the mandate of your institution? In practice what programs and activities are being implemented in support of SMEs?
- What description best fit your institution? Regulatory, promoting, hybrid?
- What are the existing policies in attracting private capital to support funding of social sector initiatives, activities and ventures?
- How does the emerging investment funds for social impact influence the financial institutions, enterprises and regulatory institutions in Ghana?
- In what ways do legislation affect impact investments and the investee enterprises? Probe effects in increasing size of funds, funding processes and conditions, establishment of venture funds, different funding sources (insurance, pensions, oil funds)
- Can you describe governance mechanisms that will ensure increase in private investment flows to enterprises in Ghana seeking social impact and financial returns?
- In what ways can legislation promote investor-fund manager relationship concerning impact investment growth in Ghana?
- How can investment and development policies support SME ventures to access capital for realising social impact and financial returns?
- How can legislation support SME ventures as agents of social impact? Different legal enterprise forms, tax laws to attract ventures to districts, communities, and rural areas will be probed.
- What kind of incentives would encourage financial institutions to allocate more funds to SMEs for social impact i.e. employment generation, poverty reduction, income inequality, access to basic services?
- What type of policies would encourage more SME owner managers to incorporate social impact in their business strategy?
- Any possible tax incentives or certain categories of SMEs expanding and providing social related services



Human Research Ethics Committee (HREC)

From Dr Claire Hewson
The Open University Human Research Ethics Committee

Email Claire.hewson@open.ac.uk
Extension (6) 54519

To Richmond Lamprey

Project title: Governance of impact investments for realisation of social impact and financial returns in Ghana

HREC ref HREC/2686/Lamprey

Memorandum

Date application submitted: 27/09/2017
Date of HREC response: 23/11/2017

This memorandum is to confirm that the research protocol for the above-named research project, as submitted for ethics review, has been given a favourable opinion by the Open University Human Research Ethics Committee.

Please note the following:

1. You are responsible for notifying the HREC immediately of any information received by you, or of which you become aware which would cast doubt on, or alter, any information contained in the original application, or a later amendment which would raise questions about the safety and/or continued conduct of the research.
2. It is essential that any proposed amendments to the research are sent to the HREC for review so they can be recorded and where required, a favourable opinion given prior to any changes being implemented (except only in cases of emergency when the welfare of the participant or researcher is or may be affected).
3. Please include your HREC reference number in any documents or correspondence. It is essential that it is included in any publicity related to your research, e.g. when seeking participants or advertising your research so it is clear that it has been reviewed by HREC and adheres to OU ethics review processes.
4. You are authorised to present this memorandum to outside bodies such as NHS Research Ethics Committees in support of any application for future research clearance. Also, where there is an external ethics review, a copy of the application and outcome should be sent to the HREC.
5. OU research ethics review procedures are fully compliant with the majority of grant awarding bodies and where they exist, their frameworks for research ethics.
6. At the end of your project, you are required to assess your research for ethics related issues and/or major changes. Where these have occurred you will need to provide the Committee with a HREC final report to reflect how these were dealt with using the final

report template on the research ethics website -

<http://www.open.ac.uk/research/ethics/human-research/full-review-process-final-report>

Best regards

Dr Claire Hewson

The Open University Human Research Ethics Committee